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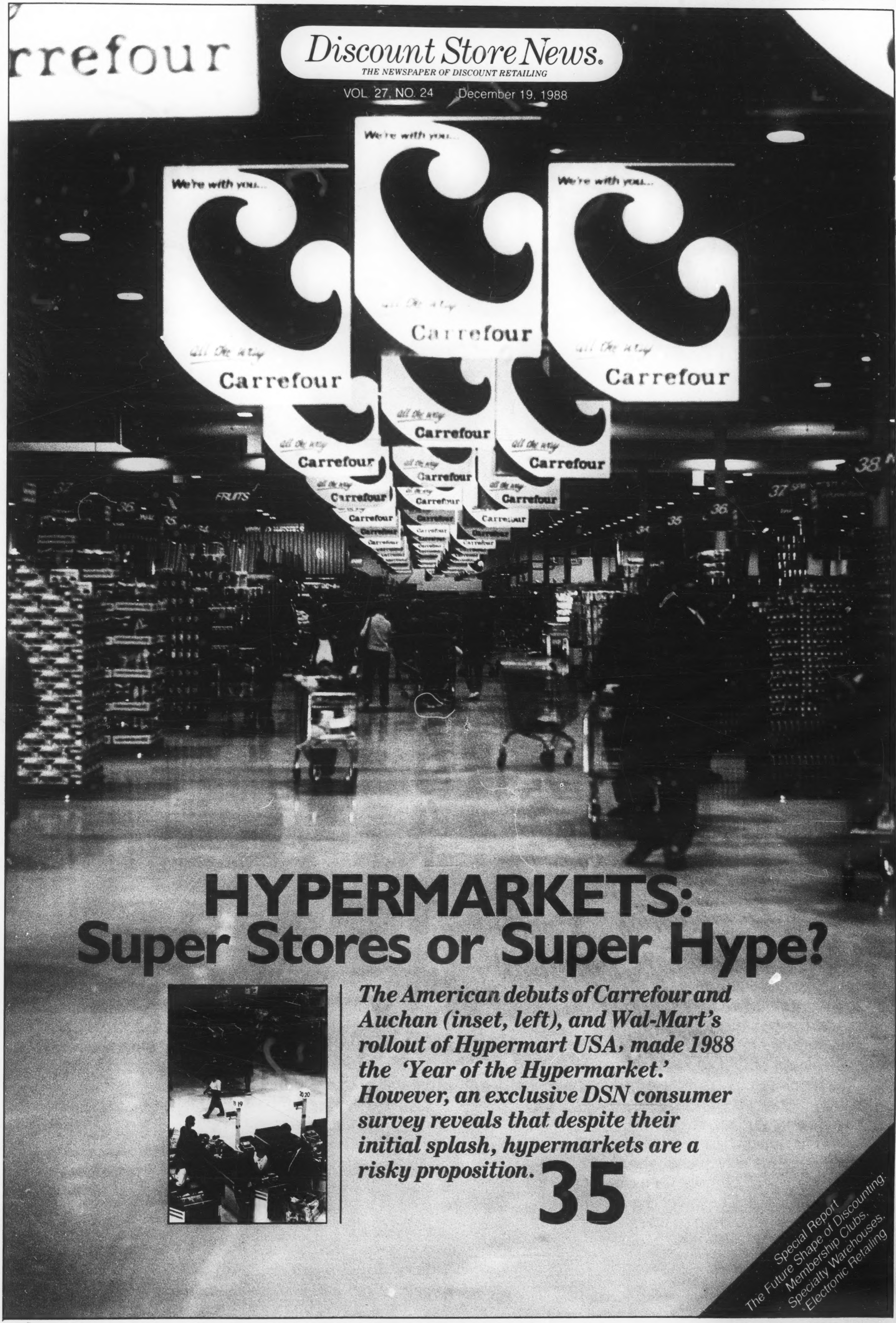
Discount Store News.
THE NEWSPAPER OF DISCOUNT RETAILING
VOL. 27, NO. 24 December 19, 1988



HYPERMARKETS: Super Stores or Super Hype?

The American debuts of Carrefour and Auchan (inset, left), and Wal-Mart's rollout of Hypermart USA, made 1988 the 'Year of the Hypermarket.' However, an exclusive DSN consumer survey reveals that despite their initial splash, hypermarkets are a risky proposition. **35**

Special Report
The Future Shape of Discounting:
Membership Clubs,
Specialty Warehouses,
Electronic Retailing

Discount Store News®
THE NEWSPAPER OF DISCOUNT RETAILING
VOL. 27, NO. 24
Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc.
$2 per copy
December 19, 1988

Zayre's Bittersweet Breakup

Zayre Corp. Spin-Off, Merger Lays Groundwork for Future Growth

By Kenneth M. Chanko

FRAMINGHAM, Mass. — After spinning off its warehouse clubs division and merging with TJX Cos., Zayre Corporation will cease to exist.

The Zayre announcement of its "major corporate restructuring," which is expected to be completed by spring 1989, will allow its two highly profitable operations—TJX Cos., in which Zayre Corp. currently has a controlling interest, and its warehouse clubs division—to grow as separate entities.

Both TJX Cos. and the warehouse clubs division have been highly profitable operations for Zayre Corp., especially over the last 12-month period ended Oct. 29 (see chart).

These major moves by Zayre Corp. come just five weeks after the completion of Ames Department Stores' purchase of Zayre's discount store division, which had been a cash drain on Zayre Corp.'s bottom line.

After the spin-off of the warehouse clubs divison, Zayre would then acquire the minority shares of its 83 percent-owned TJX Cos. in an exchange of 1.35 Zayre common shares for each TJX share.

Zayre Corp. will also pay shareholders about $3.50 a share in a special cash dividend.

After completion of the restructuring, Zayre Corp., at the company's June 1989 annual shareholders meeting, will be, upon approval, renamed TJX Cos. The newly merged company would be devoted to apparel retailing, since TJX consists of the off-price apparel chains T.J. Maxx and Hit or Miss, and the apparel cataloger Chadwick's of Boston.

(Continued on page 135)

Zayre Corp. to Be Two Separate Firms

Zayre-TJX Cos.	1988*	1987**
Net Sales (Billions)	$1.8	$1.6
Operating Income (Millions)	$140.9	$126.9

BJ's-HomeClub	1988*	1987**
Net Sales (Billions)	$1.5	$1.2
Operating Income (Millions)	$39.3	$9.8

*52 weeks ended Oct. 29, 1988
**53 weeks ended Oct. 31, 1987
Source: Zayre Corp.

Ames Makes the Cut: Sets Closing of 74 Zayre Stores

By Richard C. Halverson

ROCKY HILL, Conn. — The once-venerated Zayre name in discounting came several steps closer to extinction with the decision of Ames Department Stores to close 74 of the 392 Zayre discount stores it acquired Oct. 28.

By closing the Zayre units, Ames expects to slash the Zayre operating loss by $50 million a year. During the first nine months of 1988 alone, Zayre stores racked up an operating loss of $78.5 million.

Zayre will cease to exist in the Southeast, with the exception of Florida, where Ames will continue to operate 82 former Zayre stores after closing units in New Port Richey, Sanford and South Daytona.

Ames had said that it may keep the Zayre name only in Florida, where it is a dominant discounter. Ames is currently conducting focus group research on the Zayre name.

But Ames will close all Zayre units in Alabama, Georgia, Louisiana, Mississippi and Tennessee. Southern states account for 54 stores, or 73 percent of the closings.

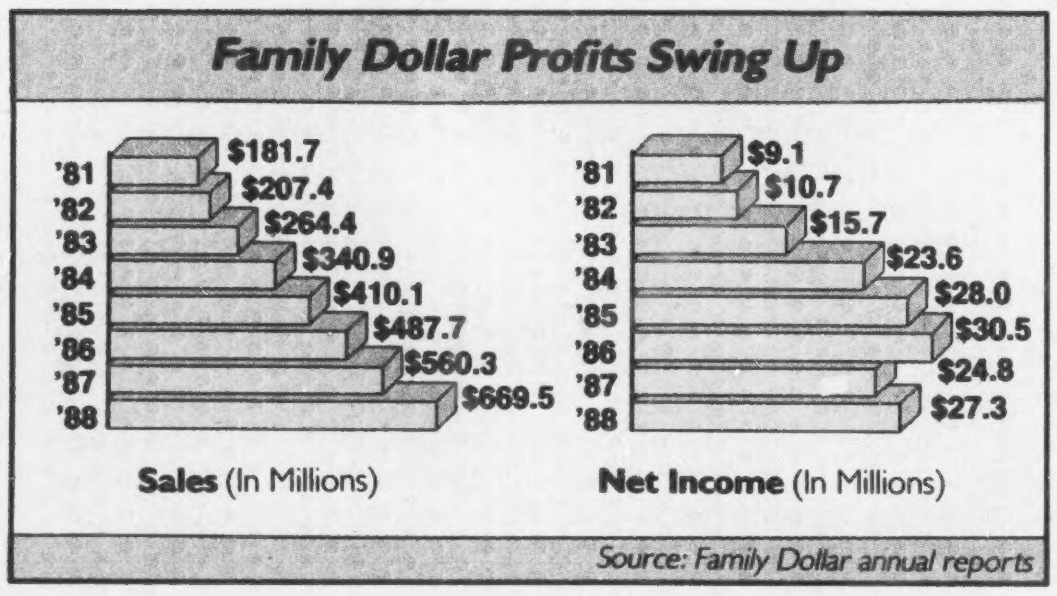
In other market retrenchments, Ames will close all six Zayre stores in Wisconsin and one Iowa unit.

The remaining 13 closings are in: New Castle, Del.; Bloomington, Bolingbrook, Crystal Lake, Des Plaines and Oak Lawn, Ill.; Pittsfield, Mass.; Xenia, Ohio; Baden, Butler and Pittsburgh (two units), Pa.; and St. Johnsbury, Vt.

In addition, Ames will convert three Massachusetts Zayre stores (Agawam, Chicopee and Holyoke) to the Ames name next February as a test of consumer reaction.

(Continued on page 135)

Ames ceo Peter Hollis expects Zayre stores to return to profitability by 1991. (DSN photo)



Family Dollar Profits Swing Up

Source: Family Dollar annual reports

Sharper Mix, Pricing Pay Off at Family Dollar

By Mary Ellen Kelly

MATTHEWS, N.C. — Family Dollar is one discounter going to the bank with the conviction that not everybody wants to shop at a hypermarket, including the company's relatively new urban shoppers as well as its traditional small town customers.

A year ago, the company underwent a top management reformation that contributed in part to a financial turnaround at the 1,454-unit dollar variety chain, as did the adjustment of its assortment and pricing.

Everyday low pricing on hard goods, a lowered price ceiling on apparel, and an overall honing of merchandise assortments resulted in a 20 percent sales increase to nearly $670 million for the year ended Aug. 31, 1988. Net income rose 10 percent to $27 million in that period. While new store openings continued to represent the lion's share of sales gains, same store sales rose a respectable 5 percent.

The goals for fiscal 1989 are to open 160 stores, for a total of nearly 1,600 units in 27 states, and to maintain same store sales gains at between 4 percent and 5 percent, said George Mahoney, senior vice president. The chain will be entering Iowa, its 27th state,

(Continued on page 136)

Discounters Report Net Profit Gain

But Other Measures of Productivity Dip in Cornell Study

By Peter Hisey

NEW YORK — Discounters' after-tax net profits were up in 1987-88 over the previous year, but gross margin, pre-tax income, per-store sales, inventory turns and gross income all dipped slightly, according to a study of 24 discount retailers conducted by the International Mass Retail Association.

The study, which was conducted over the summer, revealed that discount retailers are succeeding in their attempts to control costs, particularly at the store operations, data processing and advertising/promotion levels, but that productivity (apart from bottom-line profits) slipped slightly anyway.

IMRA president Richard Hersh noted that the results were encouraging in the context of a disappointing retail year. "The rise in profits within the mass retailing industry continues to show the underlying strength of the discount retailing concept," he said.

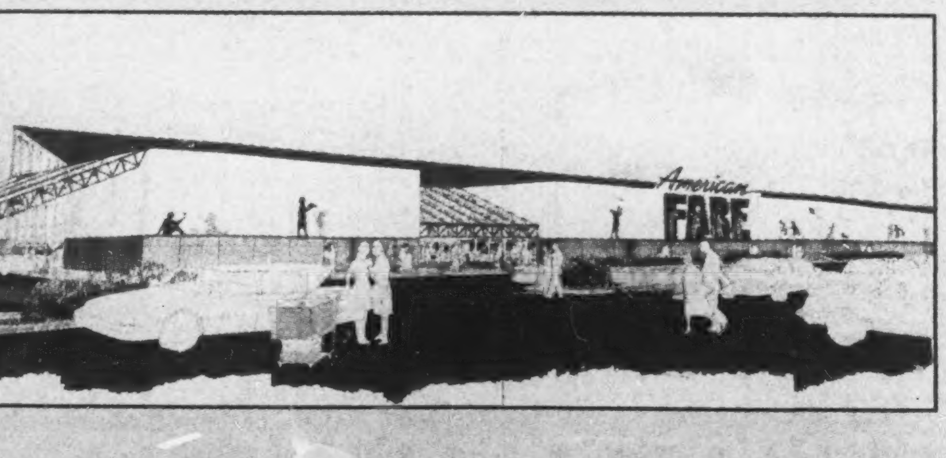
Most retail segments were affected by a year-long slump in sales of women's apparel and increasing margin pressure on products as disparate as consumer electronics, domestics and housewares.

Last year saw a round of price increases at wholesale that manufacturers typified as "long overdue."

Discounters were faced with the choice of raising prices on hundreds of products or shaving margins. Evidently, they chose a combination of the two, resulting in tighter margins and increasing consumer price resistance.

Overall, larger chains (over $1 billion in annual sales) showed stronger performance than did the smallest chains (under $300 million). For instance, larger chains averaged $10.2 million in per-store sales, compared to $5.4 million at smaller chains. After-tax income at large chains was 2.96 percent of sales; small chains lost 1.37 percent of sales, after tax, while medium-sized chains made 1.36

(Continued on page 136)



Preview: American Fare

K mart is set to open an upscale hypermarket called American Fare in Atlanta late next month. Exclusive consumer research and an artist's rendering of the new, 244,000-square-foot food/general merchandise store is included in DSN's special report on hypermarkets, super centers, membership warehouse clubs and electronic retailing, beginning on page 35.

MARKETWATCH

Target Plans a Total of 400 Stores by 1990

MINNEAPOLIS — Stepping up its 25-store expansion rate in 1988, Target plans to open 62 units next year, bringing the upscale discounter's total to 403 stores by the end of 1989. Half of the chain's growth will come from 31 former Gold Circle/Richway stores that Target acquired this year for an estimated $130 million. While many of these stores will place the discounter in new markets in the Southeast, half the proposed sites will allow the chain to bolster relatively new markets, like Detroit and the Pacific Northwest, while also filling in some existing areas. To finance the growth, parent company Dayton Hudson has slated $700 million for capital investments companywide in 1989. Target should reap the bulk of this amount.

Hechinger Scales Back Bradlees Buyouts

LANDOVER, Md. — Bradlees will continue to operate its stores in the Philadelphia market, now that Hechinger, the home center chain, has backed out of its deal to buy 14 of the 17 units. In August, Hechinger agreed to buy 47 of the 58 stores in Bradlees' Southern division for $118 million. Hechinger said terms of its agreement regarding unspecified lease provisions allowed it to back out—knocking $35 million off the price. Hechinger still intends to buy 33 other Bradlees stores in the Southern division.

The Price Co. Closes Down A.M. Lewis

SAN DIEGO — The Price Co. has closed the food distribution operation of Alfred M. Lewis Inc., a diversified food wholesaler that the firm, parent of the Price Club, bought for $48.1 million in cash in October. The purchase was basically a real estate deal and Price plans to turn Lewis' Northridge, Calif., distribution center into a Price Club. Price is converting Lewis' National City, Calif., warehouse into a meat and photo processing center for Price Club products and sold Lewis' 35-store retail operation. The future use of Lewis' Las Vegas, Phoenix and Riverside, Calif., warehouses is undetermined.

NRMA Expo to Honor Dillard, Defforey

NEW YORK — The National Retail Merchants Association will hold its 78th annual Convention and Business and Equipment Exposition Jan. 15 to 18 at the New York Hilton and Sheraton Hotels. Program participants will include William Dillard, chairman and chief executive officer of Dillard Department Stores, who will receive the NRMA's 1989 Gold Medal award, and Denis Defforey, chairman and ceo of Carrefour, who will be the recipient of the association's International Award.

Warehouse Club Names Deutchman Prez

SKOKIE, Ill. - The troubled Warehouse Club has appointed Sherwin Deutchman as president and chief operating officer, responsible for the 12-store chain's operations, merchandising and marketing. Deutchman, former executive vice president of the Denver-based Buyer's Club, reports to Warehouse Club founder Walter H. Teninga, who continues as chairman and chief executive officer. Deutchman's appointment came as the company reported sales in the fiscal year ended Sept. 30 increased 9.1 percent to $249.1 million from $228.4 million. The net loss was trimmed by almost two-thirds to $2.1 million from $6.4 million.

Court OKs American Wholesale Plan

RICHARDSON, Texas — The U.S. Bankruptcy Court for the Northern District of Texas in Dallas has approved the Chapter 11 reorganization plan of American Wholesale Club, which has just one unit in Plano, Texas. The company had earlier closed its two stores in Chicago and one in Mesquite, Texas.

HSN Sales Increase, Net Income Drops

ST. PETERSBURG, Fla. — Teleshopper Home Shopping Network reported sales of $730.1 million in the fiscal year ended Aug. 31, up 25 percent from $582.1 million in the prior year. Net income, however, plunged 39 percent to $18 million from $29.5 million.

DSN Stock Index Registers 17-Point Gain

NEW YORK — The *Discount Store News* stock index gained 1.27 percent, or 17.28 points, to close at 1,374.02 for the two weeks ended Dec. 2. In the same period, the Dow Jones Industrial Average gained 1.45 percent, or 29.87 points, to close at 2,092.28. The Warehouse Club recorded the highest percentage gain, rising 26.67 percent, or 50 cents, to $2.38. Another standout: Office Depot, which hit a new high of $18.25, for an increase of 10.61 percent, or $1.75. On the downside, Crazy Eddie logged the largest percentage decline, slumping 20.83 percent, or 16 cents, to close at 59 cents.

CVN Cos. Forms Group to Study TCI's Unsolicited Takeover Offer

By Arthur Markowitz

MINNEAPOLIS — Direct marketer CVN Cos. has set up a special board of directors committee that at presstime was studying an unsolicited takeover offer of approximately $313 million from Tele-Communications, Inc.

While CVN Cos. is a diversified $587.7 million firm, TCI's main interest is the retailer's largest operation, the $352 million teleshopper Cable Value Network, which reaches about 20 million households on over 1,800 cable systems.

TCI, the nation's leading multi-system cable operator (MSO), has offered to buy all of CVN Cos.' common stock for $18 a share, $14 in cash and a subordinate debt security with a $4 face value. TCI and affiliated companies currently own 3,664,000 CVN Cos. shares, or about 21 percent of the outstanding stock, and hold warrants to purchase an additional 4.6 million shares.

Dr. John C. Malone, TCI president, said that CVN Cos. management and directors and MSO operators that helped found the retailer "would be given the opportunity to participate in the [takeover] group." TCI leads a consortium of about 18 MSOs that co-founded CVN together with closeouter C.O.M.B. in the spring of 1986. C.O.M.B. merged with its CVN subsidiary in August 1987 to form CVN Cos.

Heading up the retailer's special committee is Harold Roitenberg, a board member since 1986 and an associate of two major CVN Cos. shareholders, chairman Theodore Deikel and Minneapolis investor Irwin Jacobs, who is a board member. Deikel and Jacobs together own about a 30 percent stake in the firm. Roitenberg, who operates Roi-

(Continued on page 134)

CVN Cos.

Headquarters: Minneapolis, Minn.
Chairman: Theodore Deikel

	1988	1987
Corp. Sales		
(In Millions)	$587.7*	$166.5
Teleshopping	352.0*	92.0*
Other**	235.7*	76.5*
Net Income		
(In Millions)	11.4	(1.1)

**Estimate*
***Includes direct mail, wholesale, remanufacturing*
Source: company reports

New Best Board Names Top Execs

RICHMOND, Va. — Best Products has two new top executives and a restructured board of directors as a result of Adler & Shaykin's $1.1 leveraged buyout of the $2.1 billion cataloger.

Jerry E. Goldress was elected chairman and chief executive officer, succeeding Robert E.R. Huntley, while Ben Weinstein was named president and chief operating officer, succeeding William F. Costello.

Goldress is a general partner of Adler & Shaykin, a New York investment company, and president of Grisanti, Galaf and Goldress Inc., a Torrance, Calif., management consulting firm, whose partners include Weinstein. The consulting firm specializes in management of turnaround situations.

Huntley and Costello, who had previously indicated they expected to remain with Best, "resigned to pursue other interests," according to the cataloger. Huntley has joined Hunton & Williams, Richmond's largest law firm.

In a related move, Moody's Investors Service has lowered its rating on the cataloger's senior subordinated notes from B1 to B3 "because of the substantial leverage incurred" by the leveraged buyout. Moody's "anticipates" the LBO "should make Best unprofitable for several years."

Best's new board, an interim body until the legal aspects of the LBO are completed early next year, is composed of

(Continued on page 134)

Circuit City Mall Prototype Opens

RICHMOND, Va. — Circuit City, the consumer electronics chain based here, opened its first "mall" store, a pared down version of its specialty stores called Impulse, in Baltimore in mid-November, and plans to add at least two more early next year. Up to 15 more are planned for 1989.

The 2,000-square-foot stores concentrate on limited product areas, including personal electronics like telephones, TADs and audio/video accessories, small TVs and camcorders, and compact audio products. Prices will be slightly higher than area Cir-

(Continued on page 134)

Telaction Refines Service For Growing Viewership

SCHAUMBURG, Ill. — Telaction, the interactive teleshopper, has quintupled its viewer reach to 26,000 potential customers and inaugurated three refinements to make buying goods through its service seem more like traditional store shopping along with being more convenient.

The telemarketer has also added two more specialty retailers to expand the merchandise available from its lineup of three dozen merchants and service providers. They are Gift Sender, the Sears operation that merchandises only name brand goods through interactive kiosks (see *DSN*, June 20, page 1) and Reliable Corp., a Chicago-based home office supply house that distributes a home office merchandise catalog.

The moves by the JCPenney-owned video retailer were geared to the upcoming holiday sales period. Telaction expects its current reach of 26,000 subscribers to two suburban Chicago cable systems to grow to about 30,000 potential consumers by the end of the year. Its growth for the next 12 months will focus on the Windy City before a national expansion move is launched in 1990.

(Continued on page 136)

IN THIS ISSUE

Special Report

HYPERMARKETS:
Super Stores or Super Hype? 35

Hypermarket Profiles
Biggs 43
Hypermart USA 44
Carrefour 47
Auchan 51
American Fare 53
Twin Valu 54
European Hypermarkets 59
Quasi-Hypermarkets
Wal-Mart SuperCenter 93
Super K mart 94
Meijer 96
Fred Meyer 99
Membership Clubs 101
Specialty Warehouses 107
Home Shopping 111

DEPARTMENTS

Classified 131
Columns:
IMRA President's Corner 10
Buyers & Sellers 10
Membership Warehouses 8
Editorial 10
Manufacturer News 123
Retail Technology 120

Caldor, Venture, Target Lead Test of EAS System

(Continued from page 8)

Discounter opposition to EAS has stemmed from the extra time and labor costs to tag merchandise—and to deactivate those tags at checkout. Now, new technology makes it possible to combine deactivation with scanning price tags, thereby saving time at checkout.

High-risk goods such as VCRs, CD players and discs, and videotaped movies, are among the items tagged on a rotating basis.

Target views EAS tags as a deterrent, rather than a means to arrest more shoplifters, its spokesman said.

"We want to keep crooks out of the store, not catch shoplifters."

With a cost of between 3 cents and 5 cents each, depending on volume, the Checkpoint tag incorporates a miniature radio circuit, said Alex Beller, vice president, marketing. The heart of the Checkpoint system is a radio transmitter and receiver. If the EAS tag isn't deactivated, its circuit changes the radio signal the receiver is hearing as the protected item passes by the monitor and trips an alarm.

Deactivation burns out the tag's circuit, so it can't interfere with the radio signal.

Of the 59 Target stores, one in Minneapolis is using the new Symbol scanning gun that incorporates the Checkpoint deactivation mechanism, Beller said, and the remaining stores are slated to take delivery early next year.

Meanwhile, the other stores are using a counter-mounted pad for deactivation, Beller said. When the new Symbol guns arrive, Target will remove the pad and plug in the deactivating scanner guns.

For now, Target is using a separate price tag, instead of printing bar codes and prices on the Checkpoint EAS tag. The EAS tag bears only a dummy bar code, intended to deceive shoplifters. Accordingly, scanning and deactivation requires two steps, but the extra time required is "almost imperceptible," its spokesman said.

When the Symbol guns arrive, Target will print bar codes and prices on its EAS tags, and scanning and deactivation will become a single step, Beller said.

In its move into EAS, Caldor, Norwalk, Conn., skipped ahead of basic scanning in testing the EAS system. Caldor plans to test EAS in a number of stores by year-end. Caldor executives were unavailable for comment.

But Kozozenski, from Venture, speculated that shrinkage was so high that Caldor couldn't wait for scanning to be installed.

Caldor chairman Don R. Clarke told associates in a June newsletter that Caldor's "current shortage reduction goal is 2.8 percent" and 2.4 percent in the fall of 1988. In comparison, the shrink rate for Wal-Mart ranges from 1 percent to 1.5 percent.

The monitors and deactivation gear to equip each Target store costs between $30,000 and $40,000, Beller said.

The capital cost for each Caldor store ran closer to $50,000, he said.

Wal-Mart has visited Target to see its EAS system in operation, Beller said. A Wal-Mart loss prevention executive said that his chain will insist on integrated scanning and deactivation equipment before making any move.

Ross Stores uses Symbol scanning guns in all its stores but uses Checkpoint's counter-mounted deactivation pad, said David Whitney, loss prevention director.

Ross tags at least 25 percent of its apparel and accessories, Whitney said, and attempts to keep shoplifters off-guard by using six styles of EAS tags. The same item might carry an adhesive label, a hangtag, a drop-in tag—or all three.

Under Ross' system, clerks set each item on the Checkpoint deactivation pad while they scan the price. The pad, with its reach, cancels all tags at once. Clerks don't have to know whether an item is tagged or stop to find each tag and touch it to the pad.

During a 10-store test that lasted two years, Ross experienced a 65 percent reduction in shoplifting, Whitney said. Ross will recoup its investment of $23,000 per store in 2½ years, he said.

Among other discounter proponents of EAS, Carrefour, the French-owned hypermarket in Philadelphia, uses the Knogo system there, as well as at its 115 other hypermarkets in Europe and South America.

Lionel Leisure also uses Knogo to protect its Kiddie City stores in downtown Philadelphia and Manhattan.

And Clover, Philadelphia, is testing two competing EAS systems in four stores. It ordered Checkpoint for two stores, and will compare results in two others that will get the Sensormatic system, said Clover general manager Warren White.

Ames, Rocky Hill, Conn., has concluded—with negative results—a 15-store EAS test of the Knogo system. But it hasn't given up on EAS.

Instead of protecting an entire store with EAS, though, Ames probably will protect a single department, most likely CE, which would be enclosed in a bullpen with its own checkout, chief financial officer Duane Wolter said.

Consumer Brand Preference in Health and Beauty Aids

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Crest	11.5%	11.0%	10.0%	10.5%	15.6%
Colgate	9.2	9.7	12.0	11.4	8.2
Revlon	6.0	6.3	6.0	3.8	8.2
Ivory	5.1	4.3	6.0	6.7	5.7
Clairol	4.6	4.0	3.0	2.9	5.7
Kleenex	4.3	4.7	6.0	1.9	5.7
Dove	4.3	4.0	4.0	4.8	3.3
Charmin	4.0	3.7	6.0	3.8	4.9
Mennen	3.4	3.7	2.0	1.9	4.1
Johnson & Johnson	3.2	3.7	3.0	1.9	2.5
Suave	3.2	3.3	3.0	3.8	2.5

In the Oct. 24 issue of Discount Store News *(Top Consumer Brands Report), Ivory and Dove were erroneously grouped together as Lever Brothers products and came in third on this chart. Ivory is a Procter & Gamble product and should not have been combined with Dove. The results of consumer brand preferences in health and beauty aids have been corrected and appear in the above chart.*

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HYPERMARKETS: Super Stores or Super Hype?

Despite the hoopla surrounding the opening of six hypermarkets in the United States during the past 13 months, few retail industry observers are hailing these mammoth 200,000-square-foot-plus stores that sell food, apparel and general merchandise as the next great retailing phenomenon.

Before Bentonville, Ark.-based discounter Wal-Mart opened its 222,000-square-foot Hypermart USA in Garland, Texas (outside Dallas) on Dec. 28, 1987, the only hypermarket on U.S. soil was Biggs' hypermarket in Cincinnati, which opened in October 1984.

As their growth is hemmed in by government restrictions in their home countries, European hypermarket operators view the U.S. market as one of unlimited opportunity. This year, Carrefour and Auchan joined Biggs as European operators of U.S. hypermarkets.

Carrefour, the European-based leader in worldwide hypermarket sales, opened a unit in Philadelphia in February. Auchan, another leading European hypermarket operator, made its debut in Houston in October.

And, Leclerc, another major European hypermarket chain, has set up offices outside Washington, D.C., to study a possible entry into the U.S. market.

Meanwhile, U.S. retailers have not stood pat. Wal-Mart opened two more Hypermart USAs—in Topeka, Kan., and Arlington, Texas. K mart, the nation's largest discount chain, announced plans to open its American Fare hypermarket in Atlanta next month. And, Super Valu, a Minneapolis-based food distributor that is a partner with Euromarché in the Biggs venture and is the parent firm of discounter ShopKo, announced plans to open two Twin Valu hypermarkets in Ohio next year.

(Continued on page 39)

Special Report:

Biggs 43
Hypermart USA 44
Carrefour 47
Auchan 51
American Fare 53
Twin Valu 54
European Hypermarkets 59
Wal-Mart SuperCenter 93
Super K mart 94
Meijer 96
Fred Meyer 99
Membership Clubs 101
Specialty Warehouses 107
Electronic Retailing 111

Hypermarkets

After Hype, Shoppers Not Returning

Hypermarkets Off to Fast Start

Hypermarket[1]	Date of Market Entry	Percent of Shoppers Aware of Hypermarket	Percent Who Shopped Hypermarket	Market Size
Biggs, Cincinnati[2]	1984	97%	67%	1.1 million
Hypermart USA, Dallas	12/87	94	38	1.1 million
Hypermart USA, Topeka	1/88	94	66	220,000
Carrefour, Philadelphia	2/88	84	34	1.5 million

[1] Following completion of the study in September 1988, Auchan opened a hypermarket in Houston and Wal-Mart opened a Hypermart USA in Arlington, Texas, outside of Dallas.
[2] Biggs' second Cincinnati hypermarket opened in September 1987.

Source: Discount Store News/Leo J. Shapiro & Assoc.

Hypermarkets, even those opened relatively recently, have high consumer recognition in their market areas. Hypermart USA in Topeka, open since January, has seen shopping visits from two-thirds of area consumers.

(Continued from page 35)

Undeniably, the integration of more food and grocery products into the standard discount/general merchandise store format will accelerate in the coming years as chains strive for ways to increase traffic and become destination outlets for a wide variety of merchandise.

However, it remains highly debatable that today's time-crunched consumer truly wants to walk through a store large enough to contain a football field, a baseball field, a basketball court, an Olympic-sized swimming pool, three tennis courts and a typical par 3 golf hole. (Really, that's how Wal-Mart describes the size of Hypermart USA!)

Also lost in the hypermarket media hype is the fact that selling food and general merchandise under one roof is not a new concept.

"There's not really a lot of magic in combining the two concepts [food and general merchandise]," commented Charles Cerankosky, a retail analyst with Prescott Ball & Turben in Cleveland. "They represent two different shopping trips. If the neighborhood needs both a grocery store and a discount store, fine. Otherwise, one will drag the other down."

Old-time discounters like FedMart, Two Guys, and Great Eastern were pioneers in combining the discount store and supermarket formats. Executives at Grand Rapids, Mich.-based Meijer and Portland, Ore.-based Fred Meyer, two chains that have successfully integrated the two formats for many years, must shake their heads and wonder what all the excitement is about.

"When we started Target, it sold both food and general merchandise," noted Kenneth Macke, chairman of Dayton Hudson, parent of discounter Target Stores. "We discontinued food in 1973 and our general merchandise business continued to grow. Now, we are looking at the potential of food and general merchandise coming back together."

However, despite the hypermarket efforts of Target's rivals K mart and Wal-Mart, Macke emphasized that Target has "no announced plans to go into the food business in a major way at this time."

A major new research report conducted exclusively for *DSN* by Leo J. Shapiro & Associates, a Chicago-based market research firm, reveals that the hypermarkets currently operated by domestic and foreign retailers in this country so far have met widely varying degrees of success in wooing U.S. consumers.

Based on 1,300 interviews conducted in August and September 1988, the study examined consumer acceptance of Carrefour, Hypermart USA and Biggs in Philadelphia, Dallas and Cincinnati.

Hypermarkets are off to a fast start in terms of consumer recognition. News of a hypermarket spreads quickly even in large metropolitan areas.

In Dallas, more than nine out of 10 consumers were aware of the existence of Hypermart USA. Over eight out of 10 Philadelphians were aware of Carrefour. In Topeka, Hypermart USA was familiar to 94 percent of the city's consumers. Biggs, the granddaddy of hypermarkets here, had an awareness rating of 97 percent after four years of operation in Cincinnati.

In the Dallas and Philadelphia market areas, each with populations of over 1 million, more than one-third of the consumers had been to Hypermart USA (38 percent) and Carrefour (34 percent). In Topeka, a market area of 220,000 persons, nearly twice as high a percentage of consumers had shopped at Hypermart USA (64 percent). In Cincinnati, two-thirds of the respondents said they had visited Biggs in the last four years.

However, many shoppers who have visited a hypermarket are uncertain about making future shopping trips to one. Fewer than one out of four shoppers who visited Carrefour (23 percent), Biggs (22 percent), and Hypermart USA in Dallas (24 percent) said they were sure they would make another visit within the next four weeks. Between 40 percent and 50 percent said they "may" or "probably will" visit the hypermarket again within a month. A troubling, for hypermarket operators, one-third to one-fourth of the shoppers said they definitely would not shop again within the coming four-week period.

Only in Topeka was the trend broken. Four out of 10 shoppers who visited Hypermart USA there said they would definitely shop again within a month—only 18 percent ruled out a return visit.

As in Europe, most U.S. hypermarkets are considered mainly food retailers by consumers. At Carrefour in Philadelphia, shoppers said that 69 percent of their most recent expenditure there was for food. At Biggs in Cincinnati, the food percentage rose to a whopping 90 percent. At Hypermart USA in Dallas, 74 percent of its shoppers' most recent purchase was for food.

Only in the Topeka Hypermart USA did general merchandise sales approach food sales in volume—with 52 percent of the average shopper's last purchase spent on food.

It is this perception of hypermarkets as mainly food stores that appears to be discouraging repeat visits. Shoppers in the survey said they felt uncertain about making another trip to the hypermarket because they were hesitant about having to travel a long distance just for food shopping. More regular hypermarket customers—those who had made 10 or more visits—tended to live within 17 minutes of the store compared to light shoppers (one or two visits) who reported traveling an average of 25 minutes.

Although most shoppers mainly purchased food at the hypermarket they last visited, few named a hypermarket when asked where they are most likely to do their weekly or stock-up food shopping.

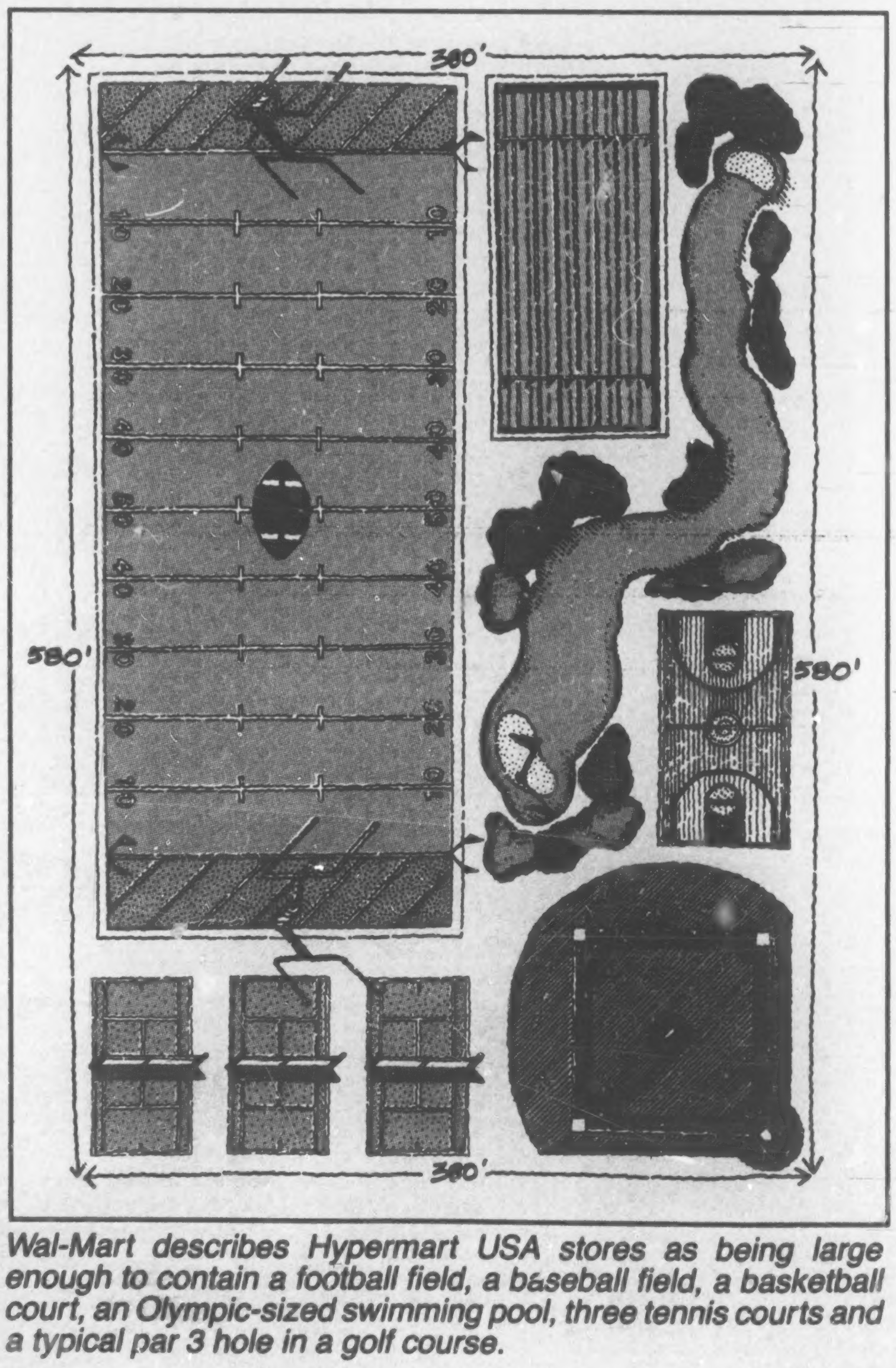
Nevertheless, the hypermarkets appear to be taking more sales from local food supermarkets than from discount department stores. Six out of 10 hypermarket customers said they would have shopped a food store if they hadn't gone to a hypermarket.

(Continued on page 40)

Sharp Prices Attract Hypermarket Shoppers

Reasons Why They Shop Hypermarkets	All Hypermarket Shoppers		
	Number of Visits		
	1-2	3-9	10+
Prices (Net)	41%	64%	77%
Lower Prices	40	60	72
Sales/Specials	1	7	7
Double Coupons	—	1	3
One-Stop Shopping/ Big Store	9	10	16
Variety/Selection	7	13	11
Quality (Net)	4	2	3
Quality Produce	2	1	2
Quality Merchandise	3	1	1
Carry Brand Names	3	1	1
Convenient Location	1	3	4
Other	2	7	10

Source: Discount Store News/Leo J. Shapiro & Assoc.



Wal-Mart describes Hypermart USA stores as being large enough to contain a football field, a baseball field, a basketball court, an Olympic-sized swimming pool, three tennis courts and a typical par 3 hole in a golf course.

Hypermarkets Impact Business at Supermarkets, Discount Stores

Percent of hypermarket shoppers who would have shopped at another type of store if not at a hypermarket:

Type of Store	All Hyper-market shoppers	Hypermart USA Topeka	Hypermart USA Dallas	Carrefour Philadelphia	Biggs Cincinnati
Food Stores	60%	50%	55%	66%	70%
Discount Department Stores	28	45	28	15	20
National Merchandisers (Sears, JCPenney, Ward)	5	7	11	5	1
Department Stores	3	3	—	—	6
Other	2	—	11	—	—

Source: Discount Store News/Leo J. Shapiro & Assoc.

Super Stores or Super Hype?

(Continued from page 39)

Discount stores were affected somewhat less by the hypermarket competitor. Twenty-eight percent of the hypermarket shoppers said a discount store would have been their alternative to their last visit to a hypermarket.

National general merchandisers such as Sears, Montgomery Ward and JCPenney were named as competition by only one out of 20 hypermarket shoppers, while full-price department stores would have been the shopping alternative for only 3 percent.

Of all the hypermarkets studied, Hypermart USA appears to be the toughest competitor for discount department stores. Nearly four out of 10 Hypermart USA shoppers in Dallas and Topeka said that a discount store would have been their alternate shopping choice. Less than two out of 10 shoppers of any of the European-style hypermarkets (Biggs and Carrefour) named a discount store as their alternate choice.

Moreover, in Topeka and Dallas, Wal-Mart's Hypermart USA attracted 12 percent of its trips from shoppers who would have visited a Wal-Mart discount department store in those areas. The damage Hypermart USA inflicted on competing discounters was even greater: 29 percent of its shoppers in Topeka would have shopped K mart; 16 percent of its shoppers in Dallas would have shopped Target.

Everyday Low Prices Key

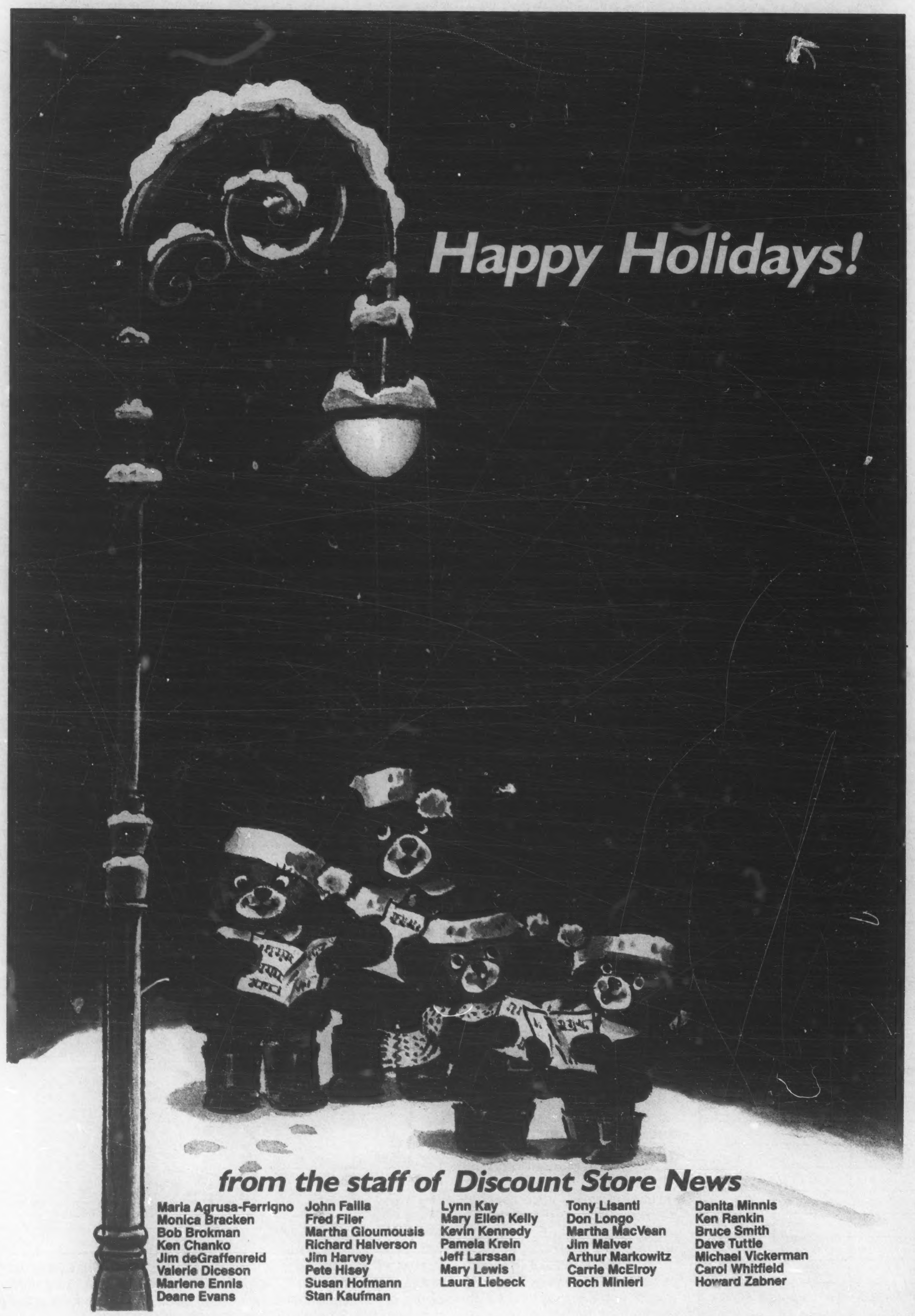
Despite the lure of offering one-stop shopping, hypermarkets' everyday low prices were the main attraction to most consumers. When frequent shoppers spoke about what they like about a hypermarket, their comments centered around price, and specifically, low prices that they can always expect. Relatively few comments were made about merchandise variety or the convenience of one-stop shopping. Even fewer commented favorably about brand selection or merchandise quality.

The study suggests that the availability of one-stop shopping is a much overrated factor in drawing customers. One out of five of the shoppers who said they were uncertain about making another visit to a hypermarket cited the difficulty of shopping that type of store as a reason for their aversion to the concept. The enormous size of the store is definitely a factor in discouraging repeat business. However, only 3 percent of frequent shoppers complained of difficulty shopping.

Contrary to the popular opinion that hypermarkets require the support of a large population in its trading area, the study shows that hypermarkets are actually more significant centers of retailing in small metropolitan areas.

For example, in Topeka, shoppers were more confident of making a return visit to Hypermart USA than were shoppers in Dallas, Philadelphia or Cincinnati. Six out of 10 Topekans said they would definitely or probably return to Hypermart USA within four weeks of the survey.

Significantly, sales in Topeka were divided almost evenly between food and general merchandise. With a higher rate of return business and a higher percentage of general merchandise sales, the hypermarket in Topeka appears able to overcome its more limited customer pool.


Happy Holidays!

from the staff of Discount Store News

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Euro-Hypermarkets

Maturing Industry Confronts Change

The infant U.S. hypermarket industry owes its origins to a distinctly European retailing concept, the hypermarché. A look at the mature hypermarket industry in Europe might offer some clues as to how American hypermarkets will do in the coming years.

The two huge markets are distinctly different, but certain purchasing patterns and shopper preferences could prove to be universal.

A 1987 report published by London-based Euromonitor entitled, "Hypermarkets and Superstores in Europe to 1990," suggests that the European hypermarket operator is confronted with a problem the U.S. companies have yet to face: opposition to expansion from land conservation groups and small but politically powerful local retailers.

Another problem gnawing at European hypermarket operators is their inability to strike a balance between general merchandise and food sales. Both their European and U.S. operations draw more than half their sales from the lower-margin food side of the business.

Some European hypermarket operators are actually considering leasing out the general merchandise sections of the stores because they have not discovered a successful approach to selling general merchandise, according to the Euromonitor study.

The European hypermarket operator is confronted with a problem the U.S. companies have yet to face: opposition to expansion from land conservation groups and small but politically powerful local retailers.

The study stated that changes that soon to be incorporated in European hypermarkets will include:

- An attempt to push into the general merchandise business to expand sales and earnings;
- Accelerated mergers and acquisitions among the various hypermarket companies, similar to what is currently happening in the U.S. discount store market;
- Increased use of credit cards and store cards;
- Expansion of direct debiting systems;
- Widespread use of scanning at checkout.

The average size of the European hypermarket, as gauged by the Euromonitor study, appears small by U.S. standards. In contrast to the typically immense size of an American hypermarket, the European definition of a hypermarket includes stores as small as 27,000 square feet as long as they sell both general merchandise and food.

France

France is a success story for hypermarket operators. Store count grew nearly 50 percent between 1980 and 1986 to 629 units, and market saturation has yet to be reached.

The average selling area of the hypermarket in France is 60,000 square feet, significantly smaller than the size of Wal-Mart's Hypermart USA, but the number of hypermarkets per person in France is the second-highest in Europe. There is one hypermarket for every 87,000 French citizens while the European average is one store per 130,000 persons.

During the early '80s nearly 25 percent of all hypermarkets in France had sales space of 160,000 square feet or larger. After 1982 the percentage of stores that fell into the largest store category plummeted to about 1 percent a year later. Retailers suddenly shifted to a selling area which was between 80,500 square feet and 159,000 square feet. The percentage of stores smaller than 80,000 square feet remained a fairly consistent 75 percent from 1980 to 1986.

The French hypermarkets, like most European hypermarkets, command a much higher market share in food than in general merchandise. While French hypermarkets garner roughly 18 percent of all food sales in the country, non-food sales through hypermarkets are less than 8 percent. General merchandise represents about 25 percent of sales at the smaller sized hypermarkets but climbs to 44 percent in the larger stores.

The tendency for general merchandise sales to rise faster than food sales as store size increases prevails in other European countries as well. The primary reason for this is that more selling space is devoted to general merchandise in the larger stores.

Yet the Euromonitor research also states that since 1980 "foods have grown more rapidly despite attempts to push non-foods in recent years."

Even though the percentage of general merchandise to food sales has shifted in larger stores, the overall hypermarket industry in France went from a 44/56 general merchandise/food shift in 1980 to a 40/60 split four years later.

Hypermarkets in Europe: 1980-1990*

Country	Number of Units				Average Sales Area
	1980	1986	Percent Change	1990*	(In Square Feet)
France	421	629	49%	750	59.1
Germany	813	952	17	1,000	63.4
United Kingdom	201	346	72	500	39.8
Italy	12	22	83	100	73.1
Spain	34	70	106	150	50.5
Belgium	77	88	14	100	65.6
Netherlands	37	34	(8)	50	49.5
Norway	67	80	19	90	32.6
Sweden	65	75	15	80	59.1
Denmark	29	45	55	60	53.8
Finland	27	35	30	50	51.6
Switzerland	81	85	5	90	49.5
Austria	51	60	18	70	49.5
Total	1,915	2,521	32	3,090	55.9

**Estimate*

Source: Euromonitor, London

West Germany

West Germans have also embraced the hypermarket concept, with 952 units in operation in 1986, or about 64,500 shoppers per store, the highest density of any country. Food is a primary purchase in these stores, and hypermarkets account for 23 percent of all food sales in West Germany even though the number of units represent only 2 percent of all stores selling food in the country.

Supermarkets, which generate 36 percent of all food sales, represent 10 percent of all stores selling food. Most of the country (76 percent) tends to shop for groceries in smaller food stores, which numbered 50,200 in 1985. The non-self-service food store, of which there are roughly 7,800, are frequented by about 12 percent of West Germans.

While Germany has the most hypermarkets of any European country, the food sales are very low, estimated to be $135 per person in 1983, at a time when store density was 70,000 people per store. It would appear that the German market represents one of the few countries where hypermarkets are not viewed as a food-only store.

Great Britain

While this region was slow to accept the hypermarket concept, unit growth in Great Britain rose 72 percent between 1980 and 1986.

The smaller hypermarkets (between 27,000 and 54,000 square feet in sales area) referred to here as "superstores," have outpaced the unit growth of the larger hypermarkets. Between 1980 and 1986, the number of superstores grew by 117 percent to 363 units while hypermarket locations were up 47 percent to 50 units. The average sales area dropped by about 5 percent between 1980 and 1986 from 43,000 square feet to 40,300 square feet.

Compared to other European countries, Great Britain has one of the lowest number of stores-per-person ratios. In prosperous southeast England, there was estimated to be 176,000 potential shoppers per store in 1986.

However, more hypermarkets and superstores are being built in the poorer areas such as Wales and northern England as retailers anticipate a more loyal customer base among those forced to be budget-conscious. The store density in the poorer regions is between 90,000 to 105,000 persons per store.

Italy

Italy has been targeted as a future growth area for hypermarket retailers due to low penetration, but only if indigenous retailers and local politicians grant hypermarkets further entry.

At the latest count (1987), there were 22 hypermarkets in the country, averaging 73,000 square feet in sales area, somewhat larger than the average in other European countries.

Two hypermarkets dominate the burgeoning Italian market: Rinascente and Euromercato, each taking a different approach to retailing.

The eight Rinascente stores in operation in 1987 have an average selling area size of 75,500 square feet and concentrate primarily on general merchandise.

The opposite is true at Euromercato. The company had four stores in operation in 1987, with an average selling area of nearly 125,000 square feet. The stores are large, and similar to Wal-Mart's Hypermart USA in that they stock few items, but carry a great depth of merchandise.

Spain

Resistance to hypermarkets by local retailing companies is gradually dissolving. The Euromonitor study estimated that the number of hypermarkets in the country is now above 80, more than twice what it was in 1980.

Among factors holding back further unit growth include: a low level of car ownership; few towns with populations above 90,000; numerous independent family shops; and low sales per square foot and profits compared with other European countries. However, the incentive is present in the form of sales potential.

While Spain is considered to still be mostly virgin territory for hypermarket operators, the Euromonitor report stated that the growth potential is low because "the Spanish standard of living and traditional retailing habits are not thought to allow room for further development in the immediate future."

Belgium

The birthplace of hypermarkets now has one unit for every 112,000 residents. Belgian hypermarkets are generally larger than all other European outlets. The average store size is slightly inflated, however, by the inclusion of 16 stores called "megasupermarkets" which are larger than some European hypermarkets, with a 32,000-square-foot selling area.

The country is among several which is considered to be at the saturation point in terms of hypermarket retailing. Others include Switzerland, Norway, Sweden and Austria.

WAL-MART SUPERCENTER

QUASI-HYPERMARKETS

Wal-Mart's SuperCenter concept combines a traditional discount store and a supermarket under one roof—like a hypermarket—but in stores of about half the square footage of most hypermarkets, and with narrower and deeper assortments and no ancillary specialty stores. (DSN photos)

Wal-Mart Hatches a 'Super' Winner

Wal-Mart, forget about Hypermart USA and stick with the Wal-Mart SuperCenters.

That is the message from consumers surveyed in an exclusive *DSN* study that tracked shopper buying patterns and attitudes at these two new and innovative retailing formats.

The study, conducted by Leo J. Shapiro and Associates, a Chicago-based market research firm, surveyed consumers shopping at Wal-Mart's two vastly different new formats: the Wal-Mart SuperCenter in Washington, Mo., a quasi-hypermarket that combines a discount store and a supermarket, and the huge warehouse club-type Hypermart USAs in Dallas and Topeka, Kan., as well as two standard hypermarkets, Biggs in Cincinnati and Carrefour in Philadelphia.

Telephone interviews conducted with 300 households in and around Washington (about 50 miles west of St. Louis), about six months after the SuperCenter opened revealed that the new Wal-Mart concept has already achieved an awareness level comparable to that of the older Carrefour and Biggs as well as the two Hypermart USAs.

The study found that the SuperCenter, which serves a two-county area of roughly 120,000 people, has gained a stronger command over its market than any of the existing hypermarkets in terms of consumer awareness, numbers visiting the store and shopping frequency.

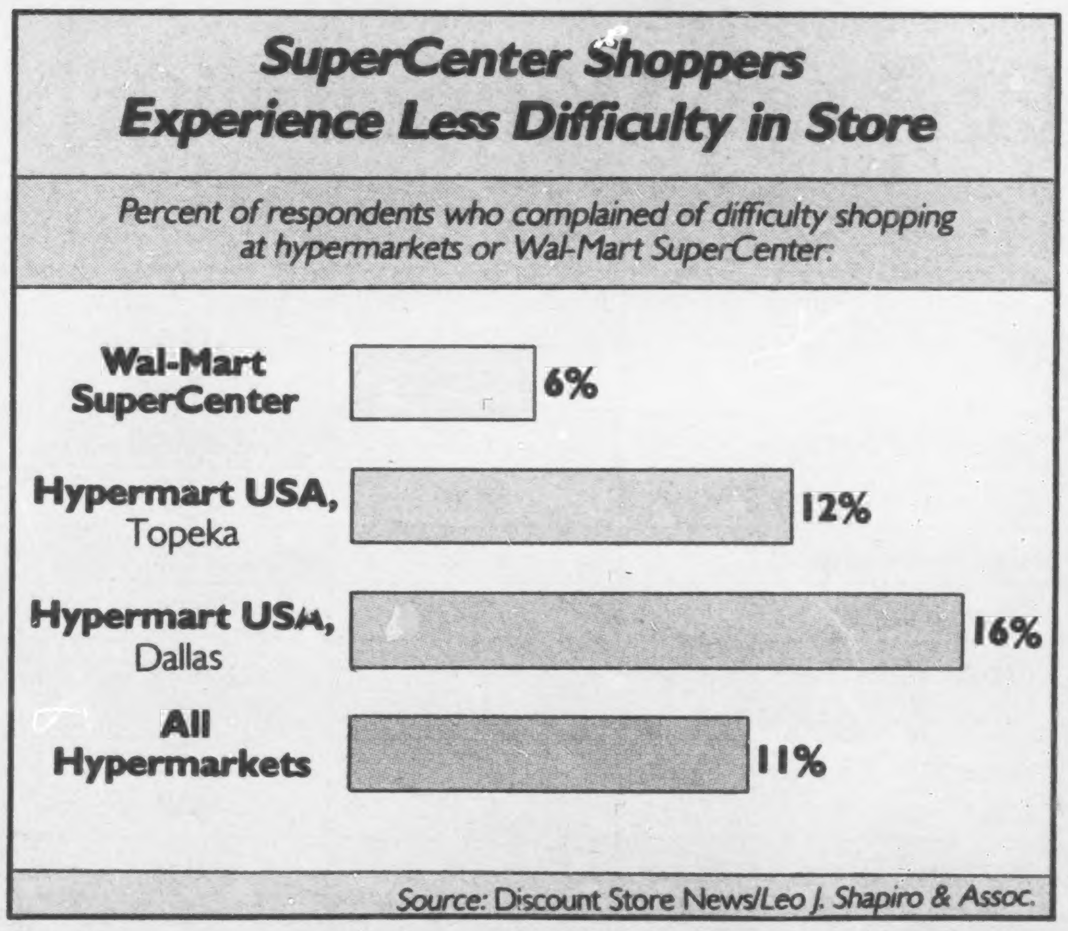
But there's a downside to the Wal-Mart SuperCenter's success. The store has a slightly greater negative impact on Wal-Mart's traditional discount stores than do the other hypermarkets. One in five Wal-Mart SuperCenter shoppers said that on their last shopping trip they would have gone to a traditional Wal-Mart if they hadn't visited the Washington SuperCenter.

However, this figure drops to one in 10 among SuperCenter shoppers who have visited the store 10 or more times, a strong indication of the concept's positive impact among consumers and the store's exceptional attraction.

The discounter subsequently opened another Hypermart USA in Arlington, Texas, a suburb of Dallas, and a Wal-Mart SuperCenter in Wagoner, Okla. While only one Hypermart USA is set for next year, in Kansas City, Mo., four more Wal-Mart SuperCenters are already on the drawing board, with one in Farmington, Mo., due to open first.

SuperCenter Shoppers Experience Less Difficulty in Store

Percent of respondents who complained of difficulty shopping at hypermarkets or Wal-Mart SuperCenter:



Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Wal-Mart's SuperCenter concept combines a traditional discount store and a supermarket under one roof. Its scaled-down size—about half the footage of most hypermarkets—narrower but deeper assortments and lack of ancillary specialty stores are the most marked differences between SuperCenters and such traditional hypermarkets as Carrefour, Biggs or Auchan.

Other retailers are enthralled by the SuperCenter concept and Wal-Mart's rival K mart has already emulated the idea by opening two Super K marts—remodeled and expanded K marts—in Kankakee, Ill., and Clinton, Iowa.

Wal-Mart is currently probing the concept's viability in different sized stores, ranging from the Washington, unit with 126,000 square feet, to Wagoner, Okla.'s trimmed back 94,000-square-foot unit, and the planned Farmington, Mo.'s expanded 152,000-square-foot unit.

Regardless of the size, if the consumer reaction to the Washington Wal-Mart SuperCenter is any indication, the discounter has a winner in its mini-hypermarket format.

The *DSN* study found that of those interviewed in each of the markets with either a full-size or scaled back hypermarket, 96.3 percent were aware of the Wal-Mart SuperCenter, while 94.4 percent knew of Hypermart USA in Dallas, 94 percent in Topeka and 83.6 percent had heard of Carrefour in Philadelphia. Only Biggs, which has been in operation in Cincinnati for over four years, has a higher recog-

(Continued on page 94)

Super K mart

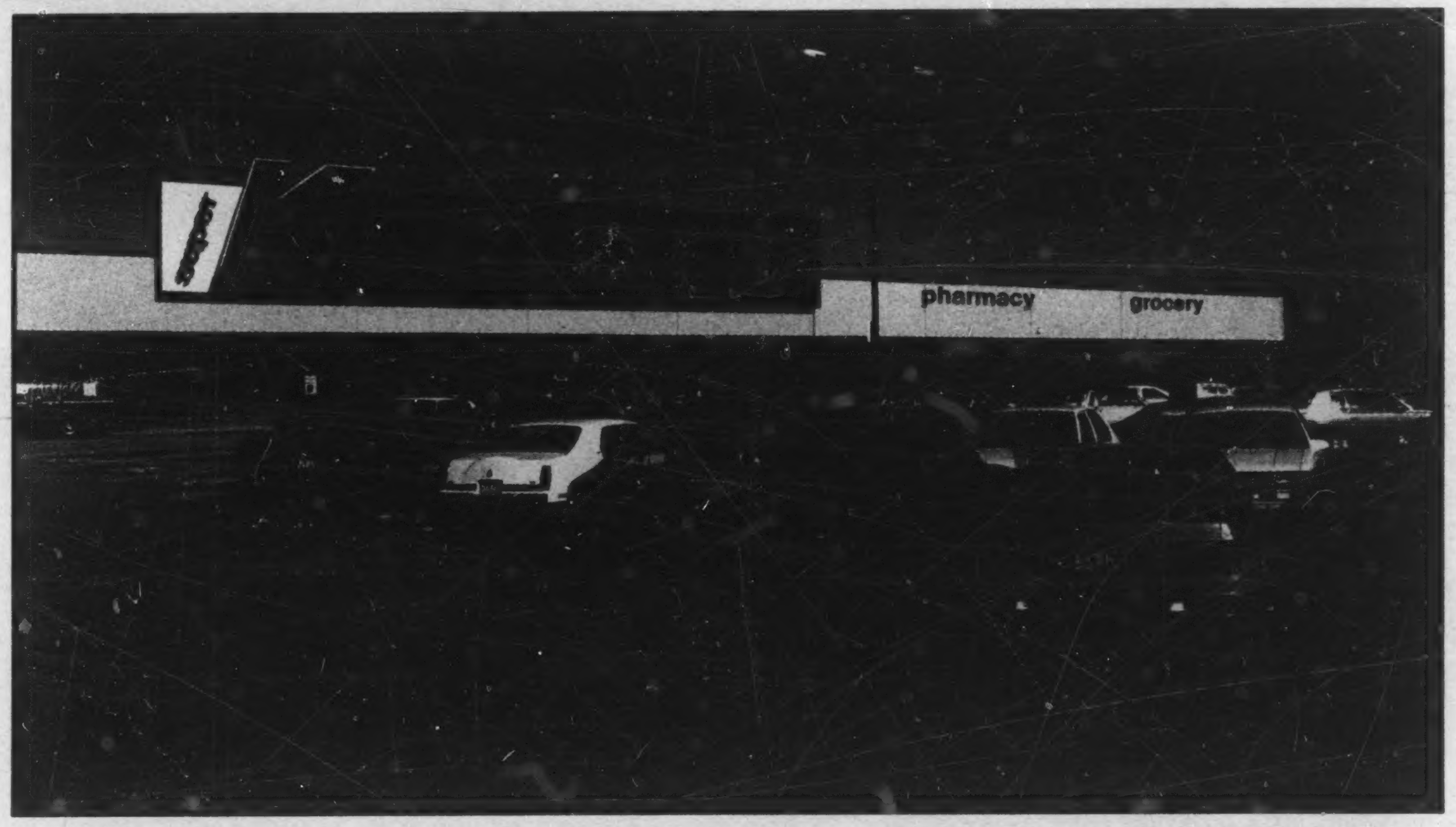
QUASI-HYPERMARKETS

New Super K marts Test Grocery Sales

The unveiling last month of two Super K mart units that combine grocery and general merchandise will be an important test of a new concept for the nation's No. 1 discounter.

The two test stores—in Kankakee, Ill., and Clinton, Iowa—could do for K mart Corp. what the SuperCenter stores have done for Wal-Mart—that is, provide an effective grocery/general merchandise retail format alternative to hypermarkets.

Top retail executives, industry observers and *DSN*'s Leo J. Shapiro consumer research all point to strong consumer acceptance of a mid-size—100,000 square feet to 150,000 square feet—food/non-food retail alternative to the 200,000-square-foot-plus hypermarkets. There is some industry concern that the mammoth hypermarkets just might be too formidable a shopping experience for many consumers.



Super K mart—a new test format for the nation's largest discounter—could be a very successful alternative to hypermarkets, combining food and general merchandise in a mid-size unit. (DSN photo)

K mart has added an additional 20,000 square feet to 23,000 square feet of space to both units to house the grocery departments. Total selling space ranges between 100,000 square feet and 110,000 square feet, making the Super K marts slightly smaller than Wal-Mart's first SuperCenter store in Washington, Mo. The two Super K marts were remodeled from existing units, while the SuperCenter was newly built.

The Super K mart stores offer prepackaged meats, dry goods, frozen foods, produce and dairy products. However, neither store has a fresh meat counter, bakery, fish or service deli department.

The grocery departments have been installed in adjacent vacant space that was formerly occupied by a supermarket company. Other than the added grocery department, these two Super K marts look the same as normal K mart discount stores. There is no separate entrance for the grocery department.

Bob Farrell, general store manager of the Super K mart in Kankakee, told *DSN* that early consumer reaction has been "very positive."

"Almost everyone knows we now have a grocery department," he said. "We did a lot of advertising."

Farrell also said that "the majority of shoppers are making grocery as well as general merchandise purchases during the same trip." He said that doesn't include items, such as candy, party and tobacco products, and certain housewares, that have been moved to the grocery from general merchandise.

In particular, consumers have commented on the ease of checkout, said Farrell. "People come up to me saying how efficient the checkouts are," he said. The store added eight checkouts to the existing 12, but all 20 checkouts, which are equipped with scanning technology, will accept any product, food or non-food.

K mart officials would not reveal any first-year sales projections for the Super K marts.

Larry Parkin, K mart's executive vice president of warehouses and grocery—whose responsibilities include overseeing Super K mart, American Fare, Makro, Builders Square, Office Square and Sports Giant—resisted comparing the Super K mart units to Wal-Mart's SuperCenters, but he did acknowledge that a food/non-food outlet in a size less formidable than hypermarkets would be an important retail concept going forward.

Also, *DSN*'s independent research has shown a greater consumer acceptance, at least so far, of the SuperCenter concept compared to any of the existing hypermarkets.

K mart's Cincinnati-based Makro division helped design the warehouse format and is handling food distribution at Super K mart.

Farrell said that 96-inch-high shelving replaced much lower shelving along a widened aisle as "a transition into the grocery department."

Both Super K marts have expanded store hours and are now open from 8 a.m. to 10 p.m. Monday through Saturday and from 10 a.m. to 7 p.m. on Sunday.

The grocery section offers such recognizable brand names as Stouffers, Green Giant, Minute Maid, Breyers, Oscar Mayer and Hormel in regular and family packs.

Farrell said that many customers were "impressed" by the wide variety of name brands carried, although he admitted that the grocery section "can't have the range that a 40,000-square-foot supermarket would have."

He said that the produce section—including fresh fruits and vegetables—has been particularly popular with shoppers.

According to knowledgeable sources, the Super K mart concept went from the preliminary discussion phase to opening in a swift six months.

While Parkin called the two Super K marts a "test" and refused to discuss future plans, sources said that there are currently "hundreds" of K mart units with adjacent—and vacant—supermarkets.

So, if the two test units are successful, K mart has the ability to roll out the new format relatively quickly and painlessly.

Wal-Mart Hatches a Winner with New SuperCenter Format

(Continued from page 93)

nition level, 97.8 percent or just 1.5 percentage points higher than that for the Wal-Mart SuperCenter.

In addition, a higher percentage of consumers reported having shopped the Wal-Mart SuperCenter than any of the hypermarkets studied: 78.7 percent for the Washington store, 66 percent for the Topeka and 37.6 percent for the Dallas Hypermart USA, 34.3 percent for Carrefour and 67.3 percent for Biggs.

Wal-Mart SuperCenter shoppers are quickly developing a shopping habit—they visit the store more than twice as often than consumers buying at the hypermarkets. At the SuperCenter, the mean number of visits was 19.2 and the median was 10, while the figures for the others were: Dallas Hypermart USA, 4.8 and 2; Topeka Hypermart USA, 8.9 and 5; Carrefour, 6.2 and 2; and Biggs, 11.2 and 4.

SuperCenter Leaves Hypermarkets in Dust

	Wal-Mart SuperCenter	Hypermart USA Topeka	Hypermart USA Dallas	All Hypermarkets
Square Footage	120,000	220,000	220,000	—
Date of Market Entry	3/88	1/88	12/87	—
Total Awareness	96%	94%	94%	92%
Ever Visited	79%	66%	38%	51%
Mean Number of Visits Since Opened	19	9	5	8
Average Ticket Last Visit	$51	$43	$56	$57
Percent Spent on Food	67%	51%	73%	77%

Source: Discount Store News/Leo J. Shapiro & Assoc.

Further, even though the SuperCenter is smaller than the hypermarkets and offers a tighter assortment, shoppers at the store spend an average of $51 per visit, only $6 less than at the hypermarkets.

The SuperCenter is also not as dependent on food to build traffic and volume as the hypermarkets: 67 percent of the dollars spent during the Washington shopper's last visit was spent on food, compared to 77 percent on average at the hypermarkets. Only in the Topeka, Kan., Hypermart USA is the percentage of food spending lower.

Additionally, the Wal-Mart SuperCenter does not suffer as much from complaints about how difficult it is to shop. It is a much more manageable store from the shoppers' point of view, with only 5.9 percent noting such problems as large size, too much crowding, unorganized presentation and lack of time for comparison shopping. Overall, 11.4 percent of the respondents cited difficulties in shopping the hypermarkets.

"Time is valuable," said one retail industry expert. "Customers do not want to deal with the time it takes to get into and out of a huge 200,000-square-foot store."

In contrast, the smaller super center or quasi-hypermarket concept—represented by Wal-Mart's SuperCenter, K mart's new Super K mart store, other test concepts like Big Bear Plus, and to some extent, Makro's consumer-oriented membership club— is "the most natural evolution of the discount retail concept," according to the analyst.

This section of *DSN*'s special report on hypermarkets and new forms of discount retailing deals with two of the newest super center concepts (Wal-Mart's and K mart's) as well as two other chains (Meijer and Fred Meyer) that straddle the line between a hypermarket and a super-sized food/general merchandise combination retail store.

Membership Clubs

Club Format's Popularity, Sales Grow

The membership warehouse industry has come of age.

An exclusive survey conducted for *DSN* found that 57.7 percent of U.S. households had a wholesale club in their area, a 21.7 percent jump from the 47.4 percent of the respondents who had a membership warehouse in their community last year.

More important, the study, conducted for *DSN* by Leo J. Shapiro and Associates, a Chicago-based market research firm, found that the percentage of people overall shopping these stores has jumped. This year, 31.3 percent of those questioned shopped a club, a 23.7 percent increase from the 25.3 percent buying at these stores last year.

Positive Growth Trends

From the membership warehouse industry's point of view, the greater number of people shopping membership warehouses reflects two very positive trends: the overall growth in the number of clubs and the increased acceptance of this form of marketing.

The percentage increase in households with clubs in their area mirrors the accelerated growth in units. Eleven major chains tracked by *DSN* operated 202 units at the start of 1987 and 254 at the end of the year, a 25.7 percent gain. These companies recorded another 25.2 percent jump in stores to 318 units this year. The industry's overall sales, meanwhile, are expected to grow from over $11 billion in 1987 to reach nearly $14 billion this year, then jumping to $18 billion in 1989.

Will Travel to Shop Clubs

Shopper acceptance of wholesale clubs is evident in a number of measurements beyond simply the raw figures showing greater numbers buying at these stores. For example, 47.6 percent of the households with membership warehouses in their market shopped these stores, while 4.9 percent of the households that weren't in a community with a wholesale club made purchases at one of these stores somewhere else.

While respondents spent a large amount at wholesale clubs, the average figure per visit declined slightly as there are a greater number of membership warehouses for people to shop in. The *DSN* study found that the mean amount spent per visit last year was $90.50, a $28.30 decline from $118.80 the previous year. The median amount per visit also fell, but much less so, to $70 from $80.

The great appeal of buying in a membership warehouse shows up in the spending pattern. The mean amount spent in one shopping trip by people who had a wholesale club in their area was $90.10 and the median amount was $60. But respondents who didn't have a nearby store and had to shop a club somewhere spend a much larger amount: the mean was $105.20 and the median amount was $85.

Another indication of the industry's growing acceptance: the swelling number of members—wholesale and group—reported by the clubs themselves. The increases for business members range from 18.4 percent at the Price Club, which has the greatest number of wholesale members, 900,000; 25 percent at The Wholesale Club, which has 90,000 business members; 30 percent at Sam's Wholesale Club and its 1.3 million wholesale members; to 33.3 percent at Price Savers, which has 200,000 business members.

The gains in group members, who don't pay any membership fee but buy at a 5 percent surcharge over the listed wholesale price, are in the 20 percent to 30 percent range. Group members number anywhere from 1 million at The Wholesale Club to 2.8 million at PACE.

While wholesale clubs aren't ignoring group members, they recognize that their future depends on fostering the growth of business members, who both pay an annual fee, $25 or $30, and make substantially larger purchases.

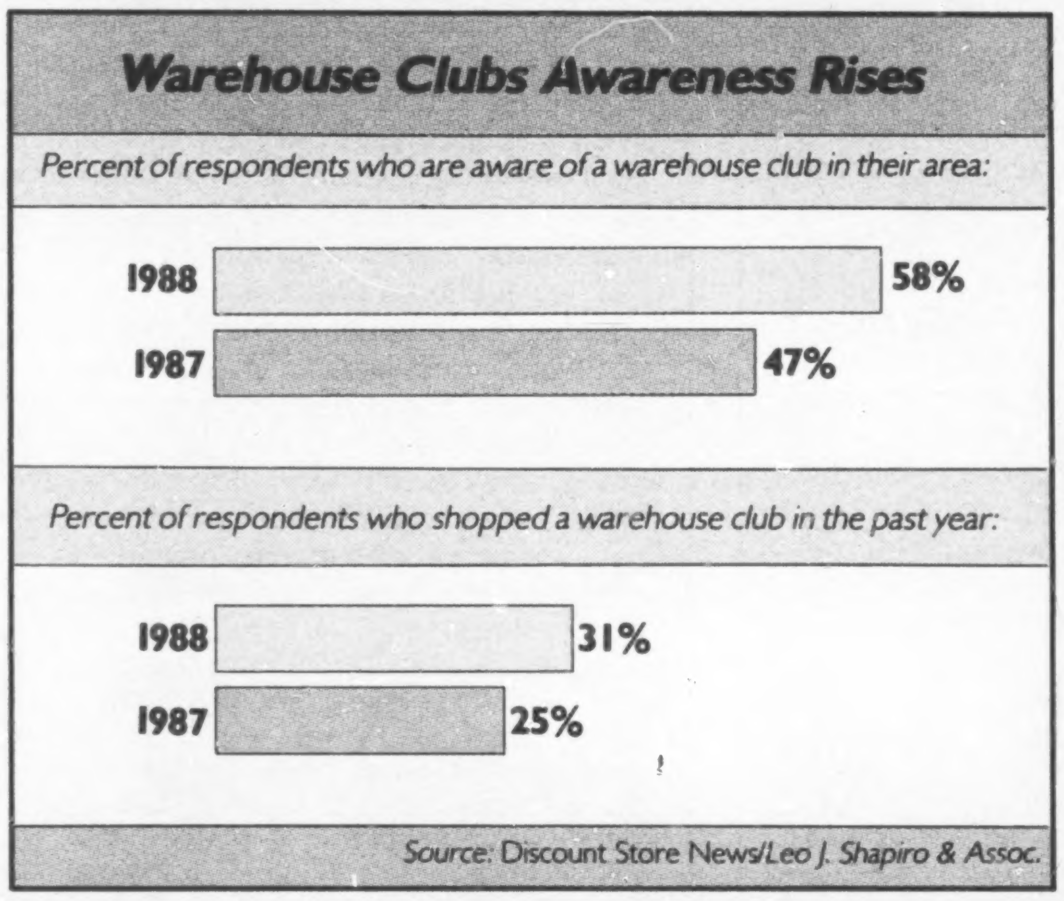
Depending on the membership warehouse, the difference in annual sales to business vs. group members can range from $1,400 at Sam's to $3,150 at The Wholesale Club, according to Stephen F. Mandel Jr. of Goldman, Sachs & Co. He reported in an August study, "The Warehouse Club Industry," that business members annually spend an average of $1,890 at Price Savers, $2,400 at Sam's and BJ's Wholesale Club, $3,280 at The Wholesale Club and a high of $3,450 at the Price Club.

Group member average annual purchases amount to $90 at Price Savers, $120 at PACE, $130 at The Wholesale Club, $300 at BJ's and a $1,000 high at Sam's.

The Price Club and Costco don't have a "free" group

(Continued on page 105)

> ***Nearly one-third of consumers in DSN's survey said they have shopped at a membership warehouse club. This increase reflects two very positive trends for the industry: the overall growth in the number of clubs and the increased acceptance of this form of marketing.***



Warehouse Clubs Awareness Rises

Source: Discount Store News/Leo J. Shapiro & Assoc.

Price Club

SAN DIEGO, Calif. — Price Club continues to refine its highly successful wholesale club formula by offering members such new services as travel, auto leasing and buying, optical and oil change/lube service while developing its sites into shopping centers and launching a new division to explore other business opportunities.

The company's single-minded merchandising focus on wholesale members has enabled Price Club to retain its status as the No. 1 membership warehouse, including running two dozen stores with $100 million or more in sales, turning inventory about 20 times a year and obtaining two-thirds of its volume from business members who average about $3,500 in annual purchases.

While targeting its mix of 2,800 sku's—the tightest in the industry—to satisfy the basic merchandising needs of wholesale members, Price Club has added the new services to give these customers additional reasons to regularly shop its stores; it augmented the concept of serving business members to include goods and services that also fill their personal needs.

Price Club Industries was set up to oversee the company's move into non-merchandising ventures such as providing the new services, operating a meat processing plant and a photo development facility. The new ventures are seen as reducing the cost of core merchandise and services like hamburger patties and photo development to offer members better values.

Unlike most other wholesale clubs, Price Club is also capitalizing on the chain's real estate potential. It owns most of its sites, and the properties—often purchased at low cost because of locations in industrial rather than commercial areas—often contain space for additional stores. A Price Club is a destination location and the store's high traffic now makes adjacent sites appealing to other retailers. Its recent $48.1 million cash acquisition of A.M. Lewis Inc., a food wholesaler that owns five food distribution centers, was a real estate deal, specifically to obtain the Northridge, Calif., site for a Price Club store.

	1988	1987
Sales (In Millions)	$4,053.4	$3,236.3
Earnings (In Millions)	94.8	73.3
Stores (Calendar Year)	41	37
Wholesale Members	900,000*	760,000
Group Members**	1,500,000*	1,200,000

1988 sales and earnings are for fiscal year ended August 1988.
***Preferred group members who pay a fee; no free group members.*
**Estimate*
Source: company reports

Sam's

BENTONVILLE, Ark. — Sam's Wholesale Club—already the leading membership warehouse chain in number of units—is likely to reap the rewards of its fast-paced expansion next year and become the top wholesale club industry in volume with over $5 billion in sales.

The chain's 50 percent-plus growth in stores and sales over a three-year period reflects the strengthening of its business member-oriented merchandising, spotting of new clubs in smaller cities and markets that have little, if any, other membership warehouse competition and the successful transformation of the Super Savers chain, acquired 18 months ago, into Sam's units.

Sam's has trimmed its mix to between 3,000 and 3,500 sku's to eliminate slow-selling items while augmenting the assortment of goods like furniture used in businesses and home offices. The result is one of the highest number of wholesale members per club, with these shoppers accounting for about 60 percent of the chain's sales.

The chain will open about 20 stores next year, with many going into smaller metro markets in the upper Midwest, Sam's new growth area, and as fill-ins in the South and Southeast. This expansion mirrors that of Sam's parent, discounter Wal-Mart, in that the wholesale club stakes out untapped markets, often small cities like Lawton, Okla., and Texarkana, Texas, before competitors and then locks up the business to discourage other membership warehouses.

In another emulation of its parent, Sam's is testing electronic scanning in a handful of stores, using the technology to receive merchandise as well as to capture UPC information at the checkout.

Sam's has also rolled out a preferred card program for group members in which they pay a $30 annual fee and buy merchandise at the wholesale price, rather than with a 5 percent surcharge. The chain was among the last wholesale clubs to offer group members this option.

	1988	1987
Sales (In Millions)	$3,930.0*	$2,711.0
Earnings (In Millions)	NA	NA
Stores (Calendar Year)	102	84
Wholesale Members	1,300,000*	1,000,000*
Group Members	1,700,000*	1,400,000*

1988 sales and earnings are for fiscal year ending January 1989.
**Estimate*
Source: company reports

Membership Clubs

Costco

KIRKLAND, Wash. — Costco Wholesale has settled into its niche as a innovative membership warehouse chain, ready to break new ground by adding such services as a company credit card and serviced fresh meat, produce and scratch bakery sections.

While doing so, Costco has fine-tuned its mix to strengthen its appeal to wholesale members who accounted for about 65 percent of its almost $2 billion in sales last year. "Preferred" group members, who pay a membership fee similar to business members, accounted for the remaining volume.

Costco's merchandising moves haven't slowed its expansion. The chain had a net growth of seven stores this year—opening 10 units and closing three Midwestern clubs. At least six more units are planned for 1989.

Adding serviced departments and a credit card are part of Costco's effort to differentiate itself from competitors like Price Club in the Los Angeles and San Francisco markets and Sam's in the Tampa and Orlando, Fla., areas. Costco is now rolling out these departments—which sell goods in multiple-item packages or large cuts—in both new and existing warehouses, while also continuing its foray into optical and pharmacy sections.

Costco's wholesale member focus has resulted in the company's mature stores generating the industry's second-highest average sales of about $60 million, with some clubs approaching the $100 million level achieved by Price Club, the industry leader.

	1988	1987
Sales (In Millions)	$1,988.7	$1,370.0
Net Earnings (In Millions)	$14.5	$5.1
Stores (Calendar Year)	50	43
Wholesale Members	583,000	473,000
Group Members*	1,041,000	1,095,000

1988 sales and earnings are for fiscal year ended August 1988.
**Preferred group members who pay a fee; no free group members.*
Source: company reports

Price Savers

SALT LAKE CITY — Price Savers doesn't expect to change its status as a retail-oriented warehouse club as a result of the pending management-led buyout of the chain from its former parent, Kroger.

The four Price Savers opened this year include the chain's debut in the Phoenix market with two units and a beefing-up of the greater Cincinnati area, entered last year, with two more clubs. The maturing of the six stores opened last year, along with the new units, should about double Price Savers' sales to a company-projected $600 million.

Prior to the proposed restructuring, due to be completed by the end of the year, Price Savers had planned to open eight units in 1989. Currently, three new sites—two in Sacramento and one in San Diego—have been confirmed, but additional openings may now be in question.

The chain has been able to expand into highly competitive markets like Southern California due to its retail orientation, which is marked by the merchandising of a broader assortment than most other warehouse clubs.

This focus on retailer customers has led Price Savers to be one of the first membership clubs to electronically scan goods at the checkout—rather than use a clerk who calls out the identification numbers to a cashier, as in most clubs.

Wholesale members, however, account for over half of Price Savers' sales, reflecting the chain's vigorous pursuit of these shoppers.

	1988	1987
Sales (In Millions)	$600.0*	$300.0
Earnings (In Millions)	NA	NA
Store Count (Calendar Year)	16	12
Wholesale Members	200,000*	150,000*
Group Members	2,600,000*	2,000,000*

1988 sales are for fiscal year ending December 1988.
**Estimate NA—not available Source: company reports*

PACE

DENVER — Celebrating its fifth anniversary, PACE is finishing off a year that has brought in new management, a sharper focus on wholesale members and the bottom line, and a commitment to increase customer service and fine-tune the merchandise mix.

The chain is now headed by chairman Wayne Patterson and president Charles Steinbrueck, co-chief executive officers, who have emphasized cost control and wholesale member orientation. This is a marked change from PACE's previous primary focus—under founder and former chairman and president Henry Haimsohn—of opening new stores as the main route to profits.

The seven clubs opened this year should help boost sales to almost $1.3 billion and increase net income to $8.3 million. PACE projects adding about eight units in 1989, strengthening its presence in such current markets as Atlanta, Detroit and Baltimore/Washington, as well as debuting in Raleigh, N.C.

The warehouse club is also fine-tuning its merchandise mix to a better/best philosophy as part of its PACE Pride program, which is designed to heighten the chain's customer service level. PACE in some areas had drifted away from carrying the top brands and the chain now wishes to re-emphasize name brands that are more competitive with specialty stores rather than discounters.

Overall, the changes aren't drastic, and PACE will still sell about 135 sku's of its private label products.

	1988	1987
Sales (In Millions)	$1,275.0*	$939.6
Earnings (In Millions)	$8.3*	$7.7
Store Count (Calendar Year)	39	32
Wholesale Members	248,000	205,000
Group Members	2,800,000	NA

1988 sales and earnings are for fiscal year ending January 1989.
**Estimate NA—not available Source: company reports*

The Wholesale Club

INDIANAPOLIS — The Wholesale Club seems to have overcome the Midwest jinx and become a profitable regional operation, with its 18 membership warehouses expected to generate upward of $3 million in earnings in the current fiscal year.

Warehouse Club, the other major upper Midwest regional membership warehouse, has shut two stores to trim its operation to just 12 units while it strives to become profitable, while Costco, the industry's third-largest chain, has terminated its three-club probe into the region.

The Wholesale Club's turnaround reflects a number of factors: massing a number of stores in a city, the maturing of these units, a sharper focus on business members and the lack of competitors in its three key markets—Minneapolis (five clubs), Cleveland (four) and Indianapolis (three). The latter situation could change as Sam's, No. 2 in the industry, expands in the upper Midwest, with the two due to battle in Grand Rapids, Mich., next year.

Besides Grand Rapids, The Wholesale Club plans to open units in 1989 in Duluth, Minn.; Appleton, Wis.; and Youngstown, Ohio, cities that so far aren't home to any membership warehouse.

The drive to better serve business members has seen The Wholesale Club adjust its assortment to carry more office furniture and a deeper mix in such products as candy and paper goods used by food vendors. Its telemarketing program to sign new businesses and renew memberships also asks what merchandise they need that the chain doesn't carry.

	1988	1987
Sales (In Millions)	$400.0*	$271.7
Earnings (In Millions)	3.0*	(0.8)
Stores (Calendar year)	18	15
Wholesale Members	90,000*	72,000
Group Members	1,000,000*	818,000

1988 sales and earnings are for fiscal year ending January 1989
**Estimate Source: company reports*

BJ's Wholesale Club

NATICK, Mass. — BJ's Wholesale Club will face a new future following the pending spin-off of the membership warehouse and its sister membership home center chain, HomeClub, into a new publicly-held company.

The move, engineered by its former parent, Zayre Corp., could result in BJ's finally receiving the financing and management attention it needs in order to rapidly expand in the Northeast, its home base, and turn a marginally profitable operation into a highly prosperous one. Currently, BJ's virtually has the Northeast to itself with 16 of its 22 stores in the New England and Middle Atlantic States. Its only major wholesale club competition is Price Club, with about a half dozen units in the region.

Under its Zayre ownership, BJ's was a minor player in the troubled retailer's conglomerate of chains. The Zayre discount stores were eventually sold as the parent reorganized itself into an apparel specialty store business.

In an effort to boost the bottom line, the chain, which also has clubs in Florida and Chicago, has unveiled a new look in its latest units opened in Westboro and Chicopee, Mass., that executives expect will be more productive than its older format. BJ's has also initiated an Inner Circle $30-a-year membership level, in which group members obtain a membership that enables them to buy goods at the same wholesale price as business members. BJ's was one of the last wholesale clubs to offer this membership option.

	1988	1987
Sales (In Millions)	$800.0*	$580.0*
Earnings (In Millions)	NA	NA
Stores (Calendar Year)	22	19
Wholesale Members	150,000*	125,000*
Group Members	1,500,000*	1,250,000*

1988 sales are for fiscal year ending January 1989.
**Estimate NA—not available Source: company reports*

Makro

CINCINNATI — "There's Nothing Else Like Makro!" is the advertising tagline used by this six-unit wholesale club operation that is jointly owned by Kmart and its founder, SHV Holdings of the Netherlands. There couldn't be a more apt description of the chain, which is gearing up for a major expansion including the opening of a minimum of 14 new units over the next two years.

Company executives say the chain's 150,000-square-foot to 200,000-square-foot units represent a hybrid combining aspects of a European hypermarché and an American warehouse club, with a dash of an upscale department store flavor in soft lines and jewelry. Among other distinguishing characteristics of Makro units are sku counts of about 25,000 items, compared to the 3,000 to 4,000 carried by a typical club, weekly ad circulars and no membership fees.

The chain caters to customers representing four different buying patterns: restaurant owners who buy merchandise for resale; business people who buy stationery and office products for their own use; food shoppers who do their weekly grocery shopping; and general consumers.

Following Kmart's purchase of a 51 percent stake in March, the chain: closed Makro's poorest performing club; opened three new clubs; added new executives who are experienced in running large, multi-unit chain operations; tested a seafood department in Cincinnati; and published a slick, four-color holiday merchandise catalog.

	1988	1987
Sales (In Millions)	$375.0*	$300.0
Earnings (In Millions)	NA	NA
Stores (Calendar Year)	6	4
Wholesale Members	500,000	400,000
Group Members**	0	0

1988 sales are for fiscal year ending January 1989.
**Estimate **Makro does not offer group memberships*
NA—not available Source: company reports

Sales and Units Continue Climb As Clubs Take Off

(Continued from page 101)

member level. Instead, people that fall into the group member category have to pay a fee to be a "preferred" group member and can buy at the posted wholesale price.

Most of the other membership warehouses also have a "preferred" group member category and annual purchases by these members are much higher than those of free group members, but still less than business members. The willingness of individuals who don't qualify for a business membership to pay a fee to belong to wholesale clubs testifies to the industry's strong appeal.

Mandel reported that "preferred" group members annually spend an average of $620 at The Wholesale Club, $625 at Costco, $1,180 at the Price Club, $1,440 at PACE and $2,000 at Sam's.

Most Sales to Businesses

Wholesale members also account for a larger portion of a chain's sales. The figures range from 51 percent at The Wholesale Club, 56 percent at PACE and Price Savers, 58 percent at Sam's, 65 percent at Costco to a 67 percent high at the Price Club, according to Thomas R. Kully of William Blair & Co. in the August study, "The Warehouse Membership Club Industry."

The Price Club and Sam's are the industry's leading chains, whether measured in total sales, volume per club or annual purchases by members. This is due, of course, to the greater number of people shopping at these chains, in the Price Club's case because of its reputation and longevity, and in Sam's because of its greater number of stores.

The *DSN* study found that of all the households who have shopped at a membership warehouse, 37.6 percent did so most recently at Sam's, up 75.7 percent from the 21.4 percent that had done so last year. Price Club was next, with 12.8 percent shopping the chain, an 8.5 percent increase from the 11.8 percent of the previous year. The percentages fell off quickly, from Costco's 9.5 percent to The Wholesale Club's 2.8 percent.

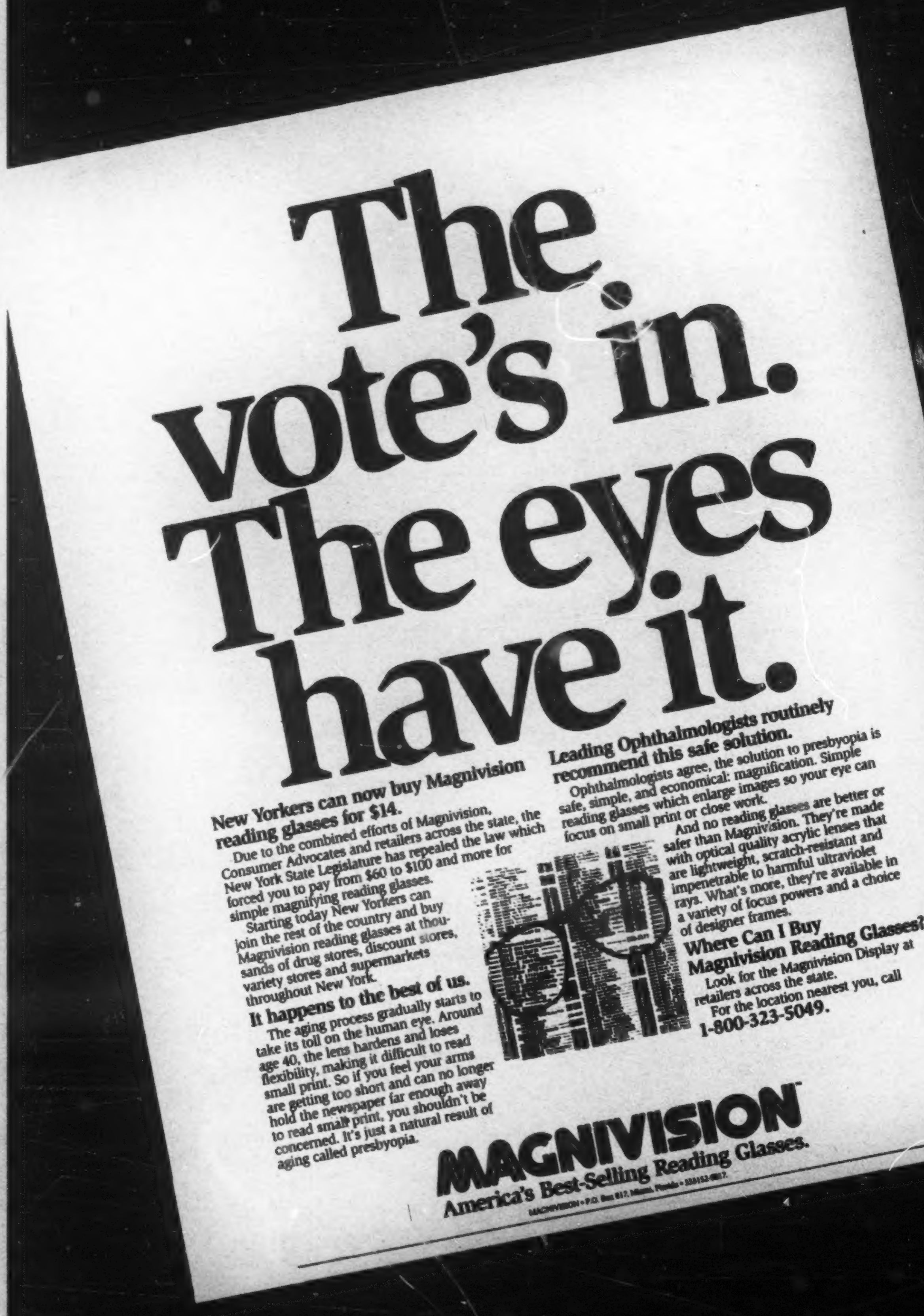
The availability and reputation of a wholesale club, however, has a marked impact on shopping patterns. Of those respondents who had a membership warehouse in their area, 28.1 percent shopped at Sam's and 11.6 percent did so at the Price Club. The range for the other chains ran from 9.1 percent at PACE to 5.1 percent for BJ's.

Sam's greater number of stores provided another benefit for the chain. A greater number of households without a club in their immediate area, 12.2 percent, ended up shopping at Sam's than at other chains. The percentages for other wholesale clubs went from 9.9 percent at PACE to just 1.8 percent at BJ's.

Price Savers opened four new units in 1988, including its invasion of the Phoenix, Ariz., market with two units.

Its approximately 150,000 business members spend an average of $2,400 each year at BJ's Wholesale Club. (DSN photos)

"OH, SAY CAN YOU SEE"...



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Due to the combined efforts of Magnivision, Consumer Advocates and retailers across the state, the New York State Legislature has repealed the law which forced you to pay from $60 to $100 and more for simple magnifying reading glasses.

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The aging process gradually starts to take its toll on the human eye. Around age 40, the lens hardens and loses flexibility, making it difficult to read small print. So if you feel your arms are getting too short and can no longer hold the newspaper far enough away to read small print, you shouldn't be concerned. It's just a natural result of aging called presbyopia.

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Where Can I Buy Magnivision Reading Glasses?

Look for the Magnivision Display at retailers across the state.

For the location nearest you, call 1-800-323-5049.

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To those public service advocates, senior citizen groups and visionary retailers, as well as leading ophthalmologists who testified on our – and the public's – behalf, we are most grateful.

The adjacent ad ran, November 30th, in the following publications:

Binghamton Press & Son • Elmira Star-Gazette • Ithaca Journal • Utica Observer-Dispatch • Yonkers Reporter Dispatch • White Plains Reporter Dispatch • Nyack Journal News • New Rochelle Standard-Star • Mount Vernon Daily Argus • Port Chester Daily Item • Peekskill Star • Mamaroneck Daily Times • Ossining Citizen-Register • Tarrytown Daily News • Poughkeepsie Journal • Albany Times-Union • Buffalo News • Jamestown Post-Journal • Kingston Freeman • Long Island Newsday • Middletown Times Herald Record • New York Times • Rochester Democrat & Chronicle, Times-Union • Schenectady Gazette • Syracuse Herald-Journal, Post-Standard • Troy Record • Watertown Times •

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Passive Cable Shopping

Company	Sales (In Millions) 1988	Sales (In Millions) 1987	Cable Systems Carrying	Homes Passed (In Millions)
Home Shopping Network St. Petersburg, Fla.	$700.0 *	$582.1*	1,683	21.6
Cable Value Network Minneapolis, Minn.	352.0*	127.6*	1,850	20.0
QVC West Chester, Pa.	112.3	2.2	931	12.6
America's Shopping Channel San Diego, Calif.	19.0	NA	5	1.0
TelShop Santa Monica, Calif.	10.1	7.6	950	11.0
The Fashion Channel Carson, Calif.	5.5	—	600	10.1
Shop Television Network Los Angeles, Calif.	NA	NA	119	4.4

Interactive Cable Shopping

Telaction Schaumburg, Ill.	Start-up operation on two cable systems with 40,000 homes, serving 10 suburban Chicago markets
Main Street Stamford, Conn.	Start-up test on one cable system in Newton, Mass.

Interactive Computer Shopping

Company	Sales (In Millions) 1988	Sales (In Millions) 1987	Number of Suppliers	Number of Subscribers
The Electronic Mall CompuServe Columbus, Ohio	NA	NA	100	500,000
PRODIGY White Plains, N.Y.	June 1988 start-up. Now in seven markets		110	NA
GEnie Mall GEnie Rockville, Md.	August 1988 shopping start-up for GEnie subscribers (who can also access Comp-U-Store Online).		20	115,000

Telephone and Computer Shopping

Company	Revenues** (In Millions) 1988	Revenues** (In Millions) 1987	Number of Members Phone	Number of Members Computer	Number of Suppliers
Comp-U-Card Stamford, Conn.	$198.5	$141.8	2.9 mil.	70,000 Comp-U-Store Online	1,100

*DSN *estimate of teleshopping sales* ***Membership and service fees only* *NA—not available*

Sales and revenues as of last completed fiscal year *Source:* DSN *research; company reports;* CableVision

The infant field of electronic retailing is in transition.

Passive teleshopping, the most mature segment of the multifaceted but young ER business, is undergoing a shakeout, while other formats—interactive cable TV retailing, computer marketing and kiosk merchandising—are in start-up phases.

Lurking just offscreen are proposals by the nation's various telephone companies to augment their phone service, including offering shopping. In the projected services, consumers would punch in numbers on their touch-tone phones to order merchandise from retailers' catalogs.

The search for viable methods to use the latest technology to sell merchandise points up the uncertainty about ER's long-term impact on retailing. This quandary is heightened by the restrained consumer interest in the most ubiquitous current ER format—passive teleshopping—in which viewers order the merchandise shown on a TV program.

No matter what forms the business eventually takes, ER is seen as an adjunct to—and not a replacement for—traditional store retailing. It is viewed as niche marketing, filling the shopping needs of segments of the population: upscale, technology-oriented consumers and those with limited time for shopping.

Teleshopping's limited appeal to consumers illustrates the ER dilemma.

Despite the round-the-clock availability of a half dozen video shopping shows, an exclusive *DSN* consumer study found mostly small increases in the number of viewers, the hours watched and the orders placed compared to a year ago.

Teleshopping's niche marketing appeal, however, is indicated by the big gains in viewers and sales reports from these firms which are true retailers in that they buy and stock the goods they sell.

The *DSN* study, conducted by Leo J. Shapiro and Associates, a Chicago-based national research firm, showed:

- Teleshopping viewing went to 48.4 percent of those questioned in April and August '88, an 8.8 percentage point increase from the 39.6 percent watching these programs in April and July '87;
- The amount of time watching increased, with the mean going from 2.7 to 3.6 hours;
- Consumers ordering merchandise increased 3.8 percentage points to 18.4 percent from 14.6 percent. But the mean amount spent fell by $2.90 to $60.20 from $63.10.

A brighter picture was evident from the major video retailers' financial reports.

The mature companies that have passed the start-up stage report sales gains ranging from 25.4 percent for the 3-year-old Home Shopping Network to 175.9 percent for the 2-year-old Cable Value Network. Year-old QVC reports serving over 1 million shoppers in its start-up period and is currently adding more than 10,000 new customers a week, while CVN doubled its customer base in the fiscal year ended in August (to an estimated 6 million).

HSN, CVN and QVC are the three principal teleretailers, dominating what has become an oligarchy. There are now seven major players, compared to the over two dozen firms operating a year ago. These teleretailers air their programs on cable TV, although HSN also broadcasts a show on commercial TV stations in about a dozen major metro markets.

Cable TV operators are now less interested in teleshopping as a result of the contraction in the number of companies and the lackadaisical consumer attitude toward this method of merchandising.

The Infomarketing Division of Jack Myers Marketing Communications, a Parsippany, N.J., research firm, reported in a study that the number of cable TV operators who viewed teleshopping as "unimportant" to their network's revenue growth jumped to 63 percent of those questioned this year from only 21 percent last year.

The small growth in viewership of teleselling shows and ordering goods has resulted in flat growth in cable operators' income from these programs. Fees from teleshopping shows account for only about 5 percent of a cable system's revenues and operators need to air only one or two such programs to obtain the maximum income, company president Jack Myers said.

The passive teleshopping field shakeout has resulted in marketers and cable system operators looking to interactive video selling as a new growth business. Cable operators also view this service as a way to get more consumers to subscribe to cable TV.

So far, only two ventures are being aired, JCPenney's Telaction as a start-up service and GTE's Main Street as a test. Neither are retailers; in both cases merchants and service providers offer their own goods and services through the two interactive systems.

Interactive TV's potential as a cable TV draw and a merchandising vehicle is open to question, according to the *DSN*/Leo J. Shapiro survey. Only 24.6 percent of all those questioned had heard of the concept, with cable TV subscribers being more familiar than non-cable viewers: 33.1 percent to 16.5 percent.

Consumer interest, however, seems to be very meager, given the very limited availability of current interactive services and no major national effort to promote the concept. Of all those surveyed, only 2.2 percent were very interested, 17.8 percent somewhat interested, 63.3 percent uninterested and 16.7 percent didn't have any opinion. Cable subscribers were only slightly more likely to be more interested than non-cable viewers.

Interactive teleselling also didn't shape up as a major reason for consumers to become cable TV subscribers. Only 2.9 percent of non-subscribers said they would definitely subscribe if interactive shopping was available.

Interactive Growth Seen

As interactive teleshopping becomes better known and available in more markets, consumers will become more interested in the service and it could become a viable niche marketing vehicle, according to a Management Horizons' Retail Focus Series Interactive Home Shopping study.

The consulting and marketing firm estimated that all interactive shopping formats—cable TV and computer—could become a $20.5 billion general merchandise and a $17.7 supermarket business by the next century, assuming a 50 percent national household penetration with an average sale of $50.

The study noted that interactive cable teleselling's appeal is as a marketer of unique and hard-to-find merchandise, gifts, and for goods like groceries that consumers want to buy without a shopping hassle. Interactive cable teleshopping will also play a role as a provider of merchandise information.

As for interactive computer merchandising, Management Horizons sees this technology's prime function as the means for retailers to provide information within specialized markets, with merchants employing the service to sell goods as a secondary use.

Kiosk marketing is the newest, most diverse ER format. Most kiosk manufacturers just sell the units to other firms, but a few manufacturers also handle the unit's merchandising, either selecting all the goods or "renting" space to other companies.

Also, a few retailers use selling machines either as ancillary salesclerks in stores or as freestanding units in places like office buildings, while other retailers use the units to provide information on the goods and services they offer, where departments are located or for general information.